NOV. 30
1935

BUSINESS WEEK

CLOSING DOOR—This week, Silk Street, Peiping, watched the open door swing to, as Japan moved to make North China part and parcel of its growing Eastern empire and to freeze other foreign business out of this thriving market of 95 millions.

McGRAW-HILL PUBLISHING COMPANY, INC.

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and No Shade!

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A $236,000,000 job is not the kind you can take chances with. The Thompson-Starrett Company, Inc., building three sections of the Colorado River Aqueduct, must overcome severe natural hazards. That is why they demand lubricants of more than ordinary dependability.

New machinery went in on this job—more than $300,000 worth of it. These new units are forced to hit a pace of 24,000 cubic yards a day. The Gargoyle Lubricants supplied by Socony-Vacuum keep these draglines slogging along without faltering—conquering operating difficulties of dirt, dust storms, terrific heat.

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Lubrication faces a tough job in the contracting field and an important job in every plant where machinery is used. Sixty-nine years of experience enable Socony-Vacuum to treat any lubricat[illegible] problem—in any type of plant—with u[illegible] surpassed specialized knowledge and e[illegible] ceptional technical skill.

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The total of these four savings is be[illegible] chalked up by many plants—some in yo[illegible] own field using similar equipment—a[illegible] called a Lubrication Profit.

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GARGOYLE Lubricants

Washington Bulletin

WASHINGTON *(By Business Week Staff Correspondents)*—Brain Trust wing of Administration is entering eclipse for next eleven months. Roosevelt is starting real breathing spell. Will bear heavily on sound financing, budget balancing, encouragement to business. Will paint glowing picture of progress toward getting federal government expenditures within receipts in near future.

Administration hopes: to encourage business revival sufficiently to boost tax revenues from corporation and individual incomes; to allay fears of unsound money, inflation, undigestible flood of government bonds and killing taxation; in short, to cut ground from under Landon and Hoover criticisms of too much spending.

Just Watchful Waiters

Theory: End justifies means. Only by catering to conservatives for a time can drive to carry out Roosevelt objectives be assured for four more years. This policy is well understood by inside crowd; hence belief they can be depended on not to make trouble while waiting emergence from dark circle of "reactionarism."

J. Farley—Diplomat

Salt is already being sprinkled by Postmaster Jim Farley on conservative tails. Example: Praise in Farley's Denver speech for Senator Adams, who fought to change \$4-billion work relief fund to \$2-billion dole, on theory that such spending would endanger national credit. New policy toward Glass and other conservatives in next session was indicated by Farley in same speech: "The member (of Congress) of independent habit and judgment is the one most appreciated by the Administration."

Courts and Taxes

Signs multiply government is in for trouble on taxes as Supreme Court votes six to three to authorize, in effect, injunction on processing tax collections. Announcement of vote is rare in such instances, hence significant. Business will benefit from injunction, regardless of ultimate decision. Courts impounding taxes assessed can refund them without further suits in Court of Claims or congressional appropriations, much simplifying procedure. If taxes are approved by high court, there will be no penalty for deferred transmittal to Treasury, saving great embarrassment for small processors.

Little Corporal Landis

Following Napoleon's pre-Waterloo tactics, SEC wants to pick its own battlefield, hence sues Electric Bond & Share—big bad holding-company type, from Administration viewpoint—to compel it to register, without awaiting expiration of time limit for registration. SEC hopes to push this case to Supreme Court before Baltimore and other less favorable cases get hearing.

LOTS OF ROOM

New Dealers are not embarrassed by Palo Alto's humor to effect that Administration has conscripted all letters of alphabet except four. They point out that the alphabet offers thousands and thousands of 3-letter combinations with which to tag New Deal activities. If you have had such a liberal education in permutations and combinations as Washington politics affords, it's easy to figure out the number, but suppose you are just a business man or business editor—quick, how many?

Official Corroboration

Business Week's prediction that new neutrality legislation, giving Administration more latitude, will be pressed at January session of Congress is now strengthened by hints of Administration spokesman that White House may ask for it.

Train-Truck Truce

First joint move of railroads and truckers to stop mutual chiseling will come at Coordinator Eastman's invitation-meeting with shippers on hand to umpire. Truckers' decision to draft own uniform national freight classification, instead of adopting rail tariff classifications, does not imply truck rates will be less. In some instances they will be lower, in others higher. Truckers are still intent on parity, which explains truce on rate-cutting.

On Troubled Waters

In outsanctioning League of Nations by discouraging oil shipments to Italy while Anglo-Persian and other foreign companies continue selling, Administration rouses resentment of American oil interests. On day League "postponed" oil embargo, two American concerns had promised Shipping Board to cease exporting oil to Italy. Net result to date: Italy is even more enraged against U. S. than against France, Holland, and Rumania. They get the business.

Italy via Cuba

Trainloads of horses and mules are pouring from Kansas City and other markets. Destination is Cuba. Explanation is, fear of further neutrality moves by government. Animals are, of course, headed for Italy.

From Wallace to Wallace

Hog population will increase more rapidly in Denmark and Germany than in U. S. largely because of drought and pig-killing here. Thus farmers of America may find Germans and Danes have captured their European bacon, ham, and lard markets before normality is restored. AAA finds this awkward to answer, especially since Agriculture Department is authority for first statement.

Works Progress in Reverse

Here is headache in work relief program: When goal of 3.5 million persons at work is reached, total on government work programs actually will be 21,000 less than year ago. Total last January was 3,521,000, of whom 2,472,091 were employed on federal-state FERA jobs, 702,963 in PWA program, and 346,000 in CCC. Work relief payrolls number 2,367,242, as of Nov. 16; this represents net increase of 1,026,000 since new program got under way in August.

New Radio Deal

General reshuffling of radio wave assignments looms as FCC prepares reports indicating that stepping up power of limited number of stations to 500,000 watts will yield better coverage, particularly in rural areas. Opening up of new channels to meet publishers' demands for local stations also in cards. Ditto for regulation of chains as complaints of too much duplication around the dial increase. If FCC doesn't act, Congress may.

EHFA Branches Out

Although Electric Home and Farm Authority is adopted child of REA it will not be confined to REA's rural backyard. First contract approved since its reorganization is with small Indiana municipal power plant. EHFA encourages appliance sales, leaves house wiring and plumbing to REA.

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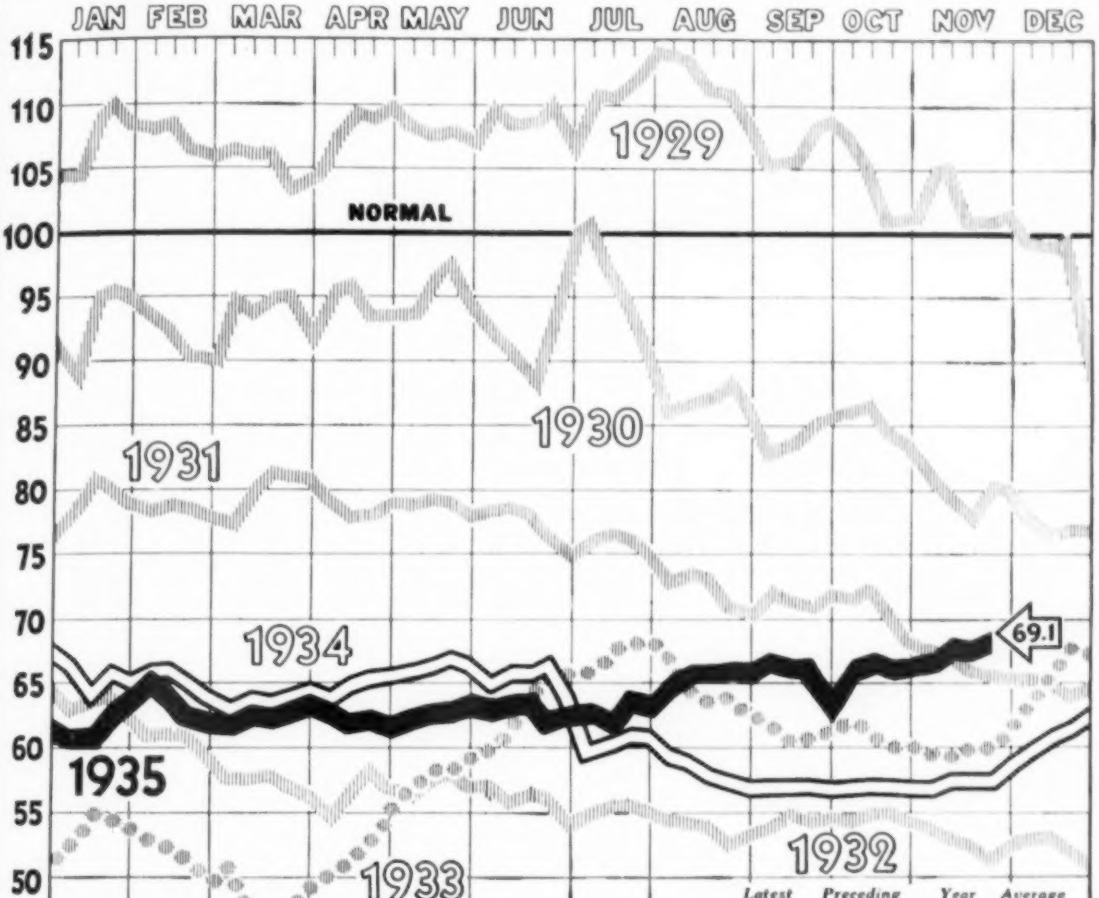
WEEKLY INDEX OF BUSINESS ACTIVITY



	Latest Week	Preceding Week	Year Ago	Average 1930-34
BUSINESS WEEK INDEX	*69.1	†68.3	58.2	63.8
PRODUCTION				
★ Steel Ingot Operation (% of capacity)	55.4	53.7	28.1	27.6
★ Building Contracts (F. W. Dodge, daily av'ge, thousands, 4-week basis)	$7,853	$7,811	$4,863	$7,232
★ Bituminous Coal (daily average, 1,000 tons)	*1,395	†1,306	1,289	1,393
★ Electric Power (millions K.W.H.)	1,953	1,939	1,705	1,633
TRADE				
Total Carloadings (daily average 1,000 cars)	105	109	98	109
★ Miscellaneous and L.C.L. Carloadings (daily average 1,000 cars)	69	72	63	70
★ Check Payments (outside N. Y. City, millions)	$4,296	$3,420	$3,500	$3,776
★ Money in Circulation (daily average, millions)	$5,757	$5,760	$5,474	$5,301
PRICES (Average for the Week)				
Wheat (No. 2, hard winter, Kansas City, bu.)	$1.14	$1.11	$1.03	$.71
Cotton (middling, New York, lb.)	12.30¢	12.27¢	12.66¢	9.13¢
Iron and Steel (STEEL, composite, ton)	$33.17	$33.16	$32.18	$30.65
Copper (electrolytic, Connecticut Valley basis, lb.)§	9.250¢	9.250¢	9.000¢	7.837¢
All Commodities (Fisher's Index, 1926 = 100)	84.3	85.0	78.9	72.1
FINANCE				
Federal Reserve Credit Outstanding (daily average, millions)	$2,479	$2,492	$2,469	$2,052
Loans and Investments, Fed. Reserve rep't'g member banks (millions)§	$20,490	$20,490	$18,914	$19,981
★ Commercial Loans, Federal Reserve reporting member banks (millions)§	$4,946	$4,945	$5,051	$6,573
Security Loans, Federal Reserve reporting member banks (millions)§	$3,056	$3,052	$3,109	$4,968
Brokers' Loans, Federal Reserve reporting member banks (millions)§	$974	$974	$828	$1,062
Stock Prices (average 100 stocks, Herald Tribune)	$111.80	$111.71	$98.42	$104.12
Bond Prices (Dow, Jones, average 40 bonds)	$97.14	$96.67	$94.18	$86.23
Interest Rates—Call loans (daily av'ge, renewal) N. Y. Stock Exchange	¾%	¾%	1%	1.5%
Interest Rates—Prime Commercial Paper (4-6 months) N. Y. City	¾%	¾%	¾-1%	2.1%
Business Failures (Dun and Bradstreet, number)	196	210	229	429

★ Factor in *Business Week* Index * Preliminary † Revised § New series.

BUSINESS WEEK


HOW Firestone TIRES
CUT OPERATING COSTS
WIDER, FLATTER TREAD WITH MORE RUBBER ON THE ROAD Gives Greater Mileage
TWO EXTRA LAYERS OF Gum-Dipped CORDS UNDER THE TREAD Locks it to Body
MOTOR TRANSPORTATION INC.
Gum-Dipped CORD BODY Prevents Internal Friction and Heat
TWIN BEADS WITH SAFETY-LOCKED PLIES FOR LONG Trouble Free Service
CERTAIN construction features must be built into tires to give you greatest safety and lowest cost per mile.
To make Firestone Tires blowout-proof, the cord body is built up of Gum-Dipped cords. To give you greatest non-skid safety and long mileage, the Firestone tread is scientifically designed, with a flatter contour and more rubber on the road. There are two extra layers of Gum-Dipped cords, to lock the rugged tread securely to the Gum-Dipped cord body.
Firestone Truck Tires are the only tires made that give you all these exclusive advantages.
Equip your trucks with Firestone Tires and start cutting your operating cost today. The nearby Firestone Auto Supply and Service Store or Firestone Tire Dealer is ready to serve you.
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Listen to the Voice of Firestone—featuring Richard Crooks, Nelson Eddy—with Margaret Speaks, Monday evenings over Nationwide N. B. C.—WEAF Network

The Business Outlook

ONE would have to go back beyond 1929 to find a period more conducive to American thanksgiving than the present—particularly if you leave out political situations abroad and political arguments at home. Pressed by urgent Detroit requests for deliveries, steel has reached another high level for the year. Improved railroad earnings and possibility of rail price increases are stimulating equipment purchases. Construction maintains a wide margin over 1934. Textile mills are busy. Factory employment is back to the October, 1930, level. So is farm income. Brokerage houses report the best volume in years.

FOR DIRECT TAXES—34%

Six leading industrial companies paid in direct taxes to national, state, and local governments in 1934 the sum of $84.7 millions, equal to 34% of their net income prior to taxation. Five cents out of every dollar of their sales represented direct taxes.

Uncertainty in Background

Behind this, of course, lie uncertainties and possibilities of disturbance. You have got to count in France's gold drain unstemmed by higher discount rates, the partitioning of China, the Ethiopian struggle, oil export problems, impending legal decisions on AAA and the utility act, the prospective federal budget, the approaching congressional session, the January initiation of security insurance, and the A. F. of L. split.

Building Spread Is Wide

Early November construction contracts reported by F. W. Dodge show some recession from October's peak, except in non-residential structures, but the spread over last year continues substantial. Residential building, a spectacular performer this year and promising as good a show for 1936, dipped sharply from the October level, but holds 96% above a year ago. Non-residential building expands despite the lateness of the season, gaining 8% over the October daily rate, 49% over last year. Public works and utility construction slipped a trifle behind the October rate in the first half of November.

Road Projects Slow

Delays in road projects have been a drag on the cement industry. Activity for the 12 months ended October, 1935, was at only 27.6% of capacity. Some recovery occurred last month when operations reached 33% of capacity, and shipments were highest of the year. Prices around Los Angeles have lifted twice in the past 30 days, but advances on the Eastern seaboard are likely to be held in check by the threat of imports.

Modernization's Biggest Week

November witnessed the biggest week in Federal Housing Administration's modernization program. Since August, 1934, total volume of modernization and repair work developed by the program (but not entirely financed under its terms) exceeded $1 billion. Among beneficiaries is the washing-machine industry which in the first 10 months of 1935 shipped more washers than in the entire record year 1934. While the bulk of the nearly 1¼ million machines sold was electric and gained 8% in the 10-month period, the 59% gain in gas engines sold reflects rural buying recovery.

Warm Weather Hurts Coal

Warm weather hindered retail sales and coal production in recent weeks. Industrial consumers, anxious to maintain ample stocks in view of increased activity and possible higher prices, provide the bulk of support. More seasonable cold weather over a broad area plus current activity in steel, motor and electric power plants should give coal mines good volume for the next two or three months.

Power Holds Strong

Electric power production has set new records every week of November. Just before the holiday week, another peak was topped, 14.5% above 1934. No region is now consuming less than 11% more power than a year ago, while the important central industrial region is taking 20% more.

Cotton-Spinning May Decline

Cotton-spinning plants operated at 103.8% of capacity in October, compared with 93.9% in September. November operations hold close to this rate, but curtailment is likely during December to avoid heavy inventory accumulations in the face of none too enthusiastic consumer buying. Cotton consumed by domestic mills in October reached the best volume in over two years, but mills of cotton-growing states contributed most to increased consumption. New England mills took nearly 15% less cotton in October than a year ago. To give New England mills a better break in quoting on extensive government contracts, bids on a 10-million-yard order for WPA will be based on delivery to 90 different points rather than f.o.b. factory as heretofore.

Motors Busy, Confident

Detroit factory staffs are close to the spring peak. Relief rolls decline; enthusiasm runs high. Motor output approximates 95,000 units per week. October production for the United States and Canada was 283,334 units, against 135,871 a year ago. At the close of November, the motor industry had assembled fully 600,000 cars. Last quarter of 1935 should prove best since 1928. Strikes like that at Motor Products plant are cautiously watched, but November introduction of new models will provide ample time to build up stocks before the big spring buying season. Detroit feels prepared to meet all but major labor upsets.

Durable Goods Stirring

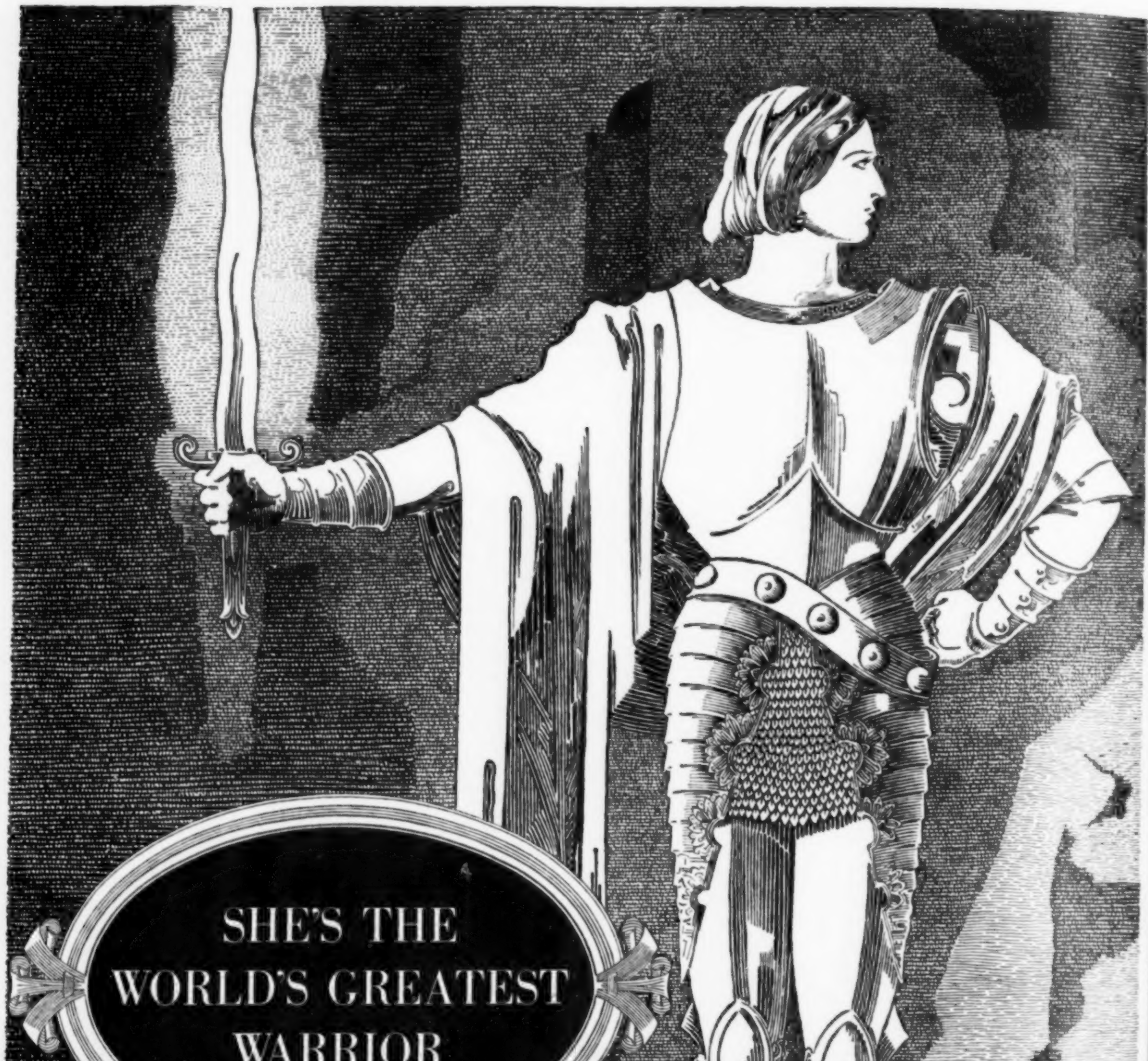
With steel mills operating at the year's best instead of the usual year-end slack, durable goods industries give every indication of being well on the recovery road. Numerous additional railroad programs have been announced this week, such as the $10-million project of Union Pacific, and Illinois Central's $3-million loan for air-conditioning and repair.

Tobacco Headline

Tobacco people are watching record-making figures roll in along with strong evidence of a cigar revival. They are also keeping an eye on Louisville, where an option held on control of Axton-Fisher (Spud, Twenty Grand) may hourly be exercised by Standard Commercial Tobacco Co., representing progressive and old-established leaf interests.

Payrolls, Pocketbooks Fatter

Unusual expansion in October factory, retail and wholesale trade employment restored some 250,000 persons to payrolls and added more than $8.2 millions to the pocketbooks of the consuming public, compared with September. Durable goods plants added 5% more workers during the month; had 19% more employees than a year ago. A 25% increase in employment in motor plants prior to introduction of new models helped to boost the durable goods industries' gain.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BUSINESS WEEK

NOVEMBER 30, 1935

Budget Strategy

President counts on evidence of progress toward a balance to build confidence and help government out in its highly delicate bond situation.

WASHINGTON (*Special Correspondence*) —When will the budget be balanced? When will fiscal news from Washington inspire business with confidence? How will President Roosevelt meet these questions in his January budget message? How will he convince the country it can rely on his January pronouncements?

Then:

How to get $14-odd billions of governments out of the banks and into the hands of investors? How to avoid risks to banks which are holding governments up to 15½ points above par? How to reassure against inflation — soft money? Against killing taxation?

Here is the best Washington information obtainable in answer to these questions held in the spotlight by the budget talk from Washington and Warm Springs.

First, though he is being told otherwise, the President does not believe that business men in general really insist on a definite date as to when the budget will be balanced. He grants that they insist on progress in that direction and he expects to show great progress for the next fiscal year—beginning July 1, 1936—accompanied by convincing calculations that there will be further progress in the following year.

Money Held Over

He will not have a heavy list of appropriations next fiscal year for the simple reason that, according to the best obtainable calculations, something like $1 billion of funds appropriated for two years will be left over on the last day of the present fiscal year.

Experts estimate that, as of the present rate of expenditures and receipts by the federal government, it would require $2,350 millions additional yearly to balance the budget. But this "left over" billion would reduce new appropriations in excess of income to $1,350 millions with no curtailment of expenditures whatever. Of course, this only applies to next year. The billion would presumably be used up during it, and hence contains no promise for the future.

The promise for the future will be divided into three parts. First, that so-called extraordinary expenditures will be sharply curtailed as time passes. As evidence, they will be cut heavily even for the year beginning July 1 next, and thereafter be gradually pruned down to about $500 millions a year. This amount is Roosevelt's idea of what the federal government should do every year, regardless of depressions, in what he likes to term "reshaping the face of nature."

Second there will be the prospective recovery by the Treasury of the money loaned by the RFC, Home Owners' Loan Corp., and similar government rescue agencies.

Third there will be the prospect of much greater returns from present taxes.

This last is expected to prove very convincing to business men, on the theory that each one knows very vividly how much lower the income taxes and corporation taxes in which he is directly concerned are than they would be if business were "normal."

But a few national figures will prove, it is believed, even more convincing. For example, the highest tax total on record was for 1920, yielding the federal government $5,400 millions—just $1,750,000 short of enough to balance the present budget! Current revenues are estimated to be running at the rate of $5,000 millions on a comparatively very small volume of business. Obviously, at the present rates of taxation on corporations and individuals, it would not require anything approaching a boom to boost them enormously.

To Start Ball Rolling

All of this is calculated by the Administration to accomplish the very thing necessary to bring about such a spurt in tax receipts—restore business confidence, with a resultant boom in business activities.

Administration officials have been told in no uncertain terms that the logic must be very convincing indeed. Shrewd bankers and business men have done a fair job demonstrating to some of the President's lieutenants, especially the young men advising Treasury Secretary Morgenthau, that the attitude of business is highly skeptical as to putting any value on the President's words alone—especially since 1934. In that year the President was very specific in

International News

TRAFFIC JAM—If the President would talk about his forthcoming budget message, now being drafted, these White House correspondents who followed him to Warm Springs would clear the road in a rush for the telegraph office.

his January budget message, and repeated the promises almost word for word in his May 15 message. Within a month after the later statement, Administration leaders attempted to slip through a provision in the second deficiency bill reappropriating all repayments to RFC, etc. Senator Glass forced a limitation of $200 millions on this, subsequently modified to $400 millions in conference between the two houses.

Bond Quandary

On the success of the President in reassuring business will depend the outcome of the present highly unsatisfactory government bond situation.

Of $27,645 millions total outstanding interest-bearing governments, $14,284 millions, or 51.67%, were in the hands of banks on June 30 last. No one in Washington knows how many more are in the hands of the insurance companies and other big investing institutions which are facing the same sort of problem.

But even more significant is the increase in such holdings since New Deal financing began. Statisticians here estimate that 88% of all the additional money obtained has been supplied by the banks, and from 92% to 95% if insurance companies are added. In short, almost all of it—making due allowance for retirements, etc.—has come from these institutional sources.

Everybody knows why. Good business loans have been scarce, bank funds have to earn something, and a small interest rate is better than none. Prices range from around 115½ for the Treasury 4¼s, due 1947 to 1952, down to a little over 99 for the Home Owners' Loan 2¾s.

To those who remember that in the last 20 years there has been a range of some 20 points on governments, the problem facing banks holding long terms seems most serious. A sharp revival of business, forcing interest rates up, could depreciate the price of these bonds to a point where several years' interest would be offset—and where, if any particular bank held too many of them, there might be serious effects on its capital.

Post-War Precedent

Experts point out that it required five years to work the banks out of governments following the World War. But the problem is very different now. In the earlier case, bonds had not soared to any such height as present long-term governments bearing more than 3% interest, yet they paid a higher rate for the most part. Their yields were sufficient to attract individual investors when the banks unloaded. Experts figure current prices on low-coupon bonds would have to come down a long way to arouse a public appetite for governments.

Washington believes that the banks have been working toward short-term governments, paying scarcely any interest but having the advantage of extreme liquidity and not subject to much price variation. But no one knows that, or rather, no one knows anything about the extent of it. There has never been a call by the Comptroller which would show the breakdown in bank holdings between short-term and long-term governments.

Few Other Outlets

Long-term governments are high not only because the banks lacked sufficient opportunities for satisfactory loans, but because there has been a paucity of attractive private offerings, due both to lack of confidence in the government's treatment of business and to SEC regulations.

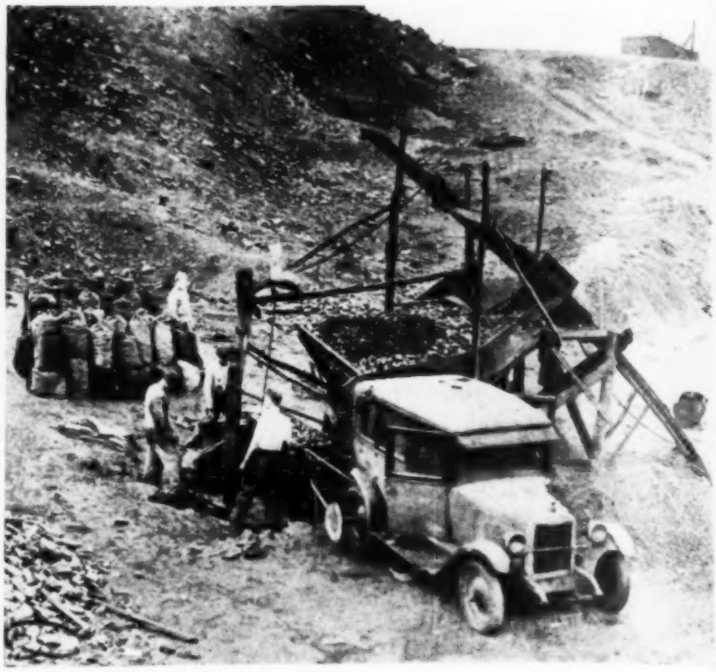
Revival of business confidence, counted on by the Administration as a reaction to the budget message, is expected to encourage offerings of private securities, and increases in ordinary commercial bank loans.

Here develops a very ticklish balance. Will reassurance as to the future persuade enough highly conservative private investors to buy governments so that prices will be held up sufficiently to prevent heavy bank losses? Not knowing how many long-term governments the banks have makes that question difficult to answer.

Actually, many banks have a very nice profit at the moment in their long-term governments. Today they are in a sense gambling on their profits. This is important not only for the obvious reason, but because of the effect such a situation produces in the minds of the bankers.

So far as the short-terms are concerned, they will rapidly "run out" of the banks as they expire, and the proceeds invested—assuming that the business revival holds up as expected—in ordinary loans.

Meanwhile the President is being urged strongly to name a date, in his budget message, after which the total federal debt will not be increased. This, he has been told, would be more reassuring—if he can make the country believe it—than almost anything he could say. And it would have the effect of holding up the value of the long-term bonds.



Wide World

POACHING PAR EXCELLENCE—With pick and shovel and an automobile to supply hoisting power, via the rear axle, any unemployed necktie salesman or day laborer is equipped to bootleg coal out of the anthracite mines in northeastern Pennsylvania. Dynamite makes the job easier, guarantees against interference.

98% vs. New Deal

This is result of Chamber of Commerce referendum. Manufacturers' Association meets Wednesday to plan fight in Congress.

Yes, 45; no, 1,796. Yes, 22; no, 1,845. Yes, 36; no, 1,825. Yes, 1,813; no, 58.

Such were the results of the referendum conducted by the Chamber of Commerce of the United States on New Deal trends. *Business Week*, Oct. 19, predicted that 95% of the member groups' votes would be "no" on the first three questions, and "yes" on the last. This week the chamber announced

the results, which averaged 98% against the New Deal.

Of 1,473 organizations entitled to vote, with a total strength of 2,909 votes, 833 voted, casting 1,895 votes. Forty-five organizations refused to vote because of the phrasing of the questions, and one resigned.

Questions Answered

The questions were: "Should there be extension of federal jurisdiction into matters of state and local concern? Should the federal government at the present time exercise federal spending power without relation to revenue? Should there be government competition with private enterprise—for regulatory or other purposes? Should all grants of authority by Congress to the executive branch of the federal government be within clearly defined limits?"

On another front, industry this week took another whack at the New Deal. James W. Hook, president of the Geometric Tool Co., released his report as chairman of the Committee on Relation of Government to Industry, established by the National Association of Manufacturers.

During the coming week, the association will announce a program of action for the session of Congress beginning in January. The Hook report will be the basis of this program.

The Congress of American Industry will be held in New York on Wednesday and Thursday, Dec. 4 and 5, under the auspices of the manufacturers' organization, which will simultaneously hold its 40th anniversary convention.

The principal speaker will be President Alfred P. Sloan, Jr., of General Motors Corp. Others will be Chairman J. Warren Madden of the National Labor Relations Board, who will be heard attentively but without approval; Dr. Neil Carothers of Lehigh University, and President Harold G. Moulton of Brookings Institution, Washington.

The report of the Hook committee made a number of recommendations, including repeal of the Wagner labor relations act and the Guffey coal act, and opposition to a new NRA, to the Ellenbogen bill for a little NRA for textiles, to the O'Mahoney bill for licensing interstate industry, to the Walsh bill enforcing labor standards on governmental contractors, and to any bill enforcing a shorter work-week.

The congress will pay a lot of attention to taxation.

The most immediate question ahead of it is how to deal with the Berry conference, to be held in Washington Dec. 9.

Lewis Deals Himself Out

Threat of secession from A. F. of L. is in background as miners' president resigns from executive council to lead fight for industrial unionism.

WHEN 11th Vice-President John L. Lewis of the American Federation of Labor knocked 10th Vice-President William L. Hutcheson to the floor at the convention of the federation in Atlantic City six weeks ago for calling him a so-and-so, it was predicted in *Business Week* that, "barring an act of God, it would now appear that Lewis, in a few years, will either control the federation or will lead a large bloc of unions outside to form another labor federation" (*BW—Oct26'35*).

Harris & Ewing

"DEAR SIR AND BROTHER—Effective this date, I resign as a vice-president of the American Federation of Labor." Thus this week in a note to President William Green did militant John L. Lewis serve notice on line labor leaders—and the steel and automobile industries—that he and seven other aggressive A. F. of L. leaders had just begun to fight for industrial, as opposed to craft, unionism.

Two days after that punch, the executive council of the A. F. of L. took a slap at 11th Vice-President Lewis, the head of its largest union, the miners, by recommending to President Roosevelt that 10th Vice-President Hutcheson, the head of its second largest union, the carpenters, be appointed American representative at the International Labor conference at Santiago, Chile.

Three weeks ago 11th Vice-President Lewis took 12th Vice-President David Dubinsky, the head of the third largest union (ladies' garment workers), and the heads of seven other large industrial unions, and formed the Committee for Industrial Organization, with himself as president (*BW—Nov16'35*).

His intention was to buck the official policy of the A. F. of L. towards industrial unions. Hutcheson, as head of the largest craft union, symbolized the old-line forces against which Lewis declared war.

Next Step

And last week 11th Vice-President Lewis went a step further. He resigned his vice-presidency, and with it, automatically, his membership in the executive council, which consists of President Green, Secretary-and-Treasurer Morrison, and the 15 vice-presidents.

Lewis' resignation left 12th Vice-President Dubinsky the only industrial unionist of the council. Some of Dubinsky's lieutenants urged him to stay there, for the sake of peace in the federation.

But Lewis made it clear to newspaper-

men that for the time being, anyhow, he does not intend a seccession from the A. F. of L. He said he would try to organize the steel, automobile, rubber, cement, textile, and other industries on a mass-union basis. The federation has about three million members, and he declares it ought to have 39 million.

"The federation thus far has failed in organizing employees in these industries into traditional craft unions," he said. "The time has come when they must abandon these dog-in-the-manger tactics and surrender jurisdiction in industries which they have shown they are unable to organize."

Secretary of Labor Perkins gave implied approval to Lewis' efforts by saying it was "one of the most important developments" in the labor movement.

Lewis and his friends have ample treasuries for their organizing drive.

If the craft leaders stick to the rules that give them a numerically disproportionate power in the federation, they may permanently keep Lewis from winning—inside. In that case he would have one reply—secession.

Union Against Union

A. F. of L. opposes Motor Products strike called by other groups. Railroad union threatens diesel strike. Longshoremen tie up shipments on Pacific; win in New York.

Of all the union situations in the United States this week, about the most extraordinary was the one in Detroit, where the lineup was union versus union.

There Francis J. Dillon, the stocky organizer whom President William Green of the American Federation of Labor made international president of the new United Automobile Workers, fought the strike called by two non-A.F. of L. unions at the Motor Products Corp., manufacturer of interior trim, windshield frames, instrument panels, and other parts, mainly for Ford, Chrysler, and Hudson (*BW—Nov23'35*).

The industry is backing Motor Products. Matthew Smith, aggressive English-born secretary of the Mechanics' Educational Society of America, and Richard Frankensteen, college-educated president of the Automotive Industrial Workers' Association, were believed to plan a strong unionizing attack on Chrysler if they won the parts strike.

But this week President W. C. Rands and the two youngish, energetic men who actively manage Motor Products—Vice-Presidents A. L. ("Bud") Lott and Walter Helmel—reopened the plant and began building up the working force, hoping to get production up enough to avert curtailment of output by their big customers.

Another significant event was taking place in the Brotherhood of Locomotive Firemen and Engineers, 1,500 of whose members were voting on whether to strike against the Chicago, Burlington & Quincy Railroad to force the use of two men, instead of one, in cabs of diesel-operated Zephyrs.

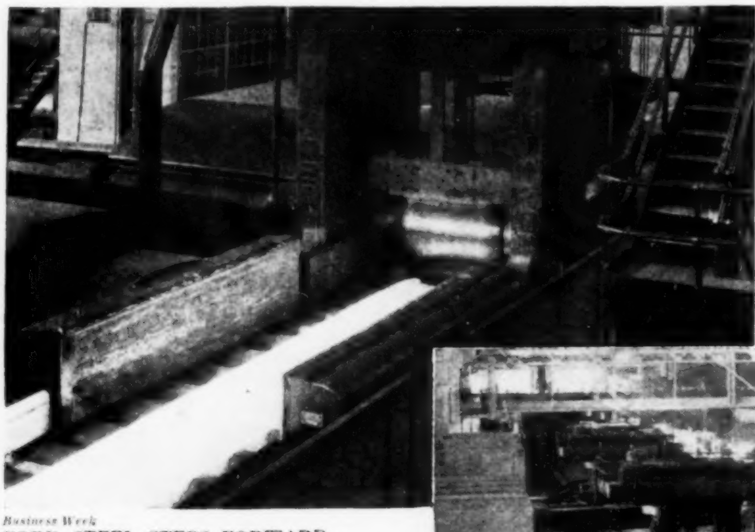
The union recently asked the Illinois Commerce Commission to make the Santa Fe use two men on a diesel in Chicago switchyards. An intervening petition against this was filed by the Electro-Motive Corp., a subsidiary of General Motors, which has spent $11 millions on its plant for diesel-powered switching locomotives, and plans to spend $9 millions more.

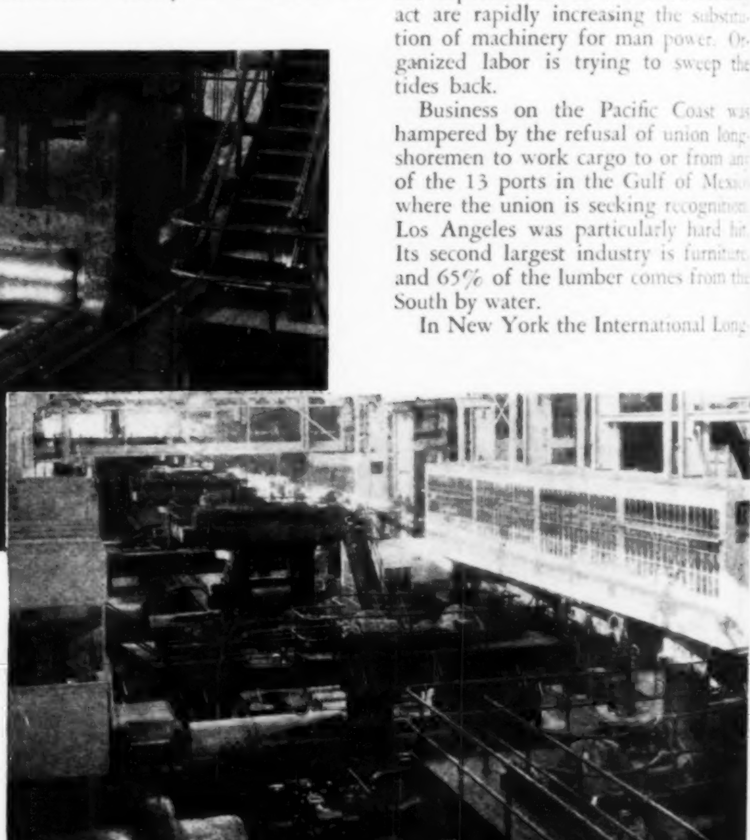
Symptom of Wide Struggle

Significance: The cost of labor and the expected cost of the social security act are rapidly increasing the substitution of machinery for man power. Organized labor is trying to sweep the tides back.

Business on the Pacific Coast was hampered by the refusal of union longshoremen to work cargo to or from any of the 13 ports in the Gulf of Mexico where the union is seeking recognition. Los Angeles was particularly hard hit. Its second largest industry is furniture and 65% of the lumber comes from the South by water.

In New York the International Long-





Business Week

FORD STEEL STEPS FORWARD—Already in operation is the new Ford continuous hot strip mill (two views of which are shown) and with the completion of the cold mill next month sheets for 3,000 cars a day will be regular schedule. Controlling the metal from ingot to finished product, the new mills were designed by United Engineering and Foundry Co. for pleasing appearance as well as for utility, and are part of a $30-million program. Heretofore Ford has confined its steel making to forging billets, bars, shapes and narrow strip.

Keystone

EYE TO EYE—Mayor LaGuardia of New York (president of the mayors' conference for 1936) and WPA's Harry Hopkins meet as friends—they both see the Administration relief program as workable. Some of the 100 mayors attending the recent Washington parley were critical, but they were assured that no one would starve. They voted to press for definite, adequate help.

shoremen's Association won a 12-year fight when, after a short strike, the United Fruit company granted union recognition.

A few small manufacturers of broad goods in Paterson, N. J., signed agreements with the American Federation of Silk Workers last week, but most of the shops continued to resist the month-old strike.

The National Labor Relations Board went on holding hearings in Wagner act cases, and employers went on calling the act unconstitutional. The first legal test of the act in a federal court occurred in Kansas City when the Majestic Flour Mills, of Aurora, Mo., got a temporary injunction to prevent the board from holding a hearing on a complaint, and sought a permanent injunction.

The Cleveland Regional Labor Board refused to take jurisdiction of the strike at the Toledo stores of the Great Atlantic & Pacific Tea Co. Reason: the A.&P. (like Schechter in the NRA case) imports goods from other states but sells them locally, so that the Supreme Court would surely refuse to say that the stores are engaged in interstate commerce.

Field's Quits Jobbing

McKinsey plan of concentrating on own manufactures adopted; retailing unchanged. Style bureau planned for New York.

MARSHALL FIELD & Co. this week confirmed what the mercantile field has been expecting since *Business Week* predicted it on Oct. 19. Field's will cease functioning as jobber for other manufacturers; its wholesale department will hereafter be known as its manufacturing division and will concentrate on distribution of products made in Field's plants or by factories whose output it controls, and goods which it imports. Retail operations are not affected.

Concentrating on production and sale of products of design and style, manufacturing facilities are to be improved and a central bureau of style and design is to be established in New York City.

This departure is the latest and most drastic Field move since J. O. McKinsey recently assumed chairmanship of the company, which handles more than $100 millions of merchandise annually at wholesale and retail. Previous changes have been in personnel; the present step is a result of findings in a survey made by McKinsey for the company prior to his joining in an official capacity.

During last several years, Field's wholesale business has comprised a steadily increasing large proportion of its own manufactures; in 1934, less than 30% of its wholesale volume represented merchandise of other makers. Twenty-five mills and 45 factories owned or controlled have come to supply the bulk.

Concentration on Field products implies an immediate expansion in its manufacturing activities, helped by release of capital now required for jobbing. Control of style and design and a general reduction in operating expenses are foreseen.

Key men are to continue in executive capacities. John McKinlay, president, will coordinate the retail, manufacturing, and real estate operations. Manufacturing will be headed by Hughston M. McBain, general manager; J. P. Margeson, merchandise manager; and Grant S. Mears, sales manager.

Commodity sales managers, not yet named, are to head major operating divisions, listed tentatively as (1) silk, wool, rayon, and cotton dress goods; (2) blankets, sheets, bedspreads, towels, and linens; (3) hosiery and underwear; (4) handkerchiefs, lingerie, gloves, cotton dresses; (5) floor coverings, curtains, and draperies.

These sales groups are to be coordinated under Mears, general management is to be in hands of McBain, and Margeson is to be assistant general manager and merchandise manager.

Some Lines Liquidated

Major lines which will be liquidated as a result of the policy change include notions and toiletries, silk dresses, neckwear, jewelry, housewares, leather goods, toys, men's furnishings, yarns, and furniture. Karasten, domestic oriental rug, is to come back as a Field line and nucleus of floor-covering department. Jobbing lines have been liquidated gradually during recent weeks and goods remaining will be sold in the normal course of business.

The Field directors have made a number of personnel changes in connection with the new policies. Frederick D. Corley, besides continuing as general manager of the retail store, is to be first vice-president of the company. Horace O. Weetmore is leaving the First National Bank to become treasurer of Field's in place of Thomas H. Eddy who resigns as secretary and director as well. Ernest L. Olrich, comptroller, also becomes secretary.

First Shoe Boost

McAn leads off with retail price raise; others near with material costs up. Mail-order houses well stocked, may stand pat.

NEXT Monday, Dec. 2, the 500-odd Thom McAn chain shoe stores are going to take down the $3.00 price signs and put up new ones that will read $3.30 per pair—an action expected to start other shoe chains and sundry independent retailers on a little price-boosting of their own.

Chains and individual retailers alike have been studying price problems for months. Some absorbed earlier slight increases in wholesale costs in the hope that there would be no others. Drastically higher prices today, on practically all shoe materials, plus greater labor costs that came with the codes but did not go out with them, have forced manufacturers to make advances which are now about to show up in higher retail prices.

Boot & Shoe Recorder recently showed that between May 1, 1933, and

Oct. 15, 1935, the average cost had increased as follows:

Leather for uppers, from 60¢ to 99¢.

Linings and trimmings, from 12¢ to 18¢.

Labor, from 78¢ to 98¢.

It showed also that with fixed overhead charges left undisturbed and selling and administrative expenses approximately the same, the average cost per pair, at the factory door, increased in that period from $3.60 to $4.51.

Most manufacturers say that recent increases of wholesale prices are only the beginning, that other and perhaps larger ones are due, with current or higher prices on hides and leather.

The 10% boost by Thom McAn (Melville Shoe Corp.) is expected to be followed by increases of similar proportion by Rival and Ward. Insiders say that Regal will try to hold its boost to less than 10%, that its upper grade, now selling at $5.55, may stay under $6.

Chains and independent stores in active competition with the mail-order houses are wondering whether current catalogue quotations will be maintained in mail-order retail stores. Some of the plants supplying mail-order buyers laid in heavy stocks of leather while prices were at the bottom, and these stocks have not been wholly absorbed; therefore mail-order houses might hold price levels for some time without loss.

Independent retailers welcome chain price increases, because they see a better chance to hold their own with prices at higher levels than those of recent years, and they are constantly improving merchandising technique to equalize the price difference that direct-selling manufacturers such as Melville, Regal, etc., can offer.

Metals Market Mapped

McGraw-Hill survey shows what is bought, where, and what factors determine sales.

A NEW navigation chart for the metal-producing industries has been compiled by the McGraw-Hill Publishing Co.

Instead of relying solely on hot or cold rolled statistics available within each field, the surveyors went outside to important companies buying for these purposes: metal working, automotive, new construction, central power stations, coal mines, process industries, food products, motor bus companies, electric railways, aviation, and others. The result is a realistic picture of the suppliers.

To gather the original facts, 144 executives, editors, and salesmen visited 621 plants in 37 states. The compilation, is a companion-piece to the McGraw-Hill industrial lubrication survey (*BW—Jan21'31*). It shows who buys what, where, and why.

The type of executive buying in each field is disclosed, as is the relative importance of each buying factor. The presentation will furnish the big metal companies with balance sheets of marketing assets and liabilities.

An old question finally answered is whether "steel is just steel" wherever purchased or whether buyers want to know what company is back of a metal product. Replies show that 65.6% of sales of shapes and forms are made by jobbers to buyers who do not know the make of the metal.

The heaviest ignorance percentage is in tin plate, with 95% buying blind. Purchasers of structural shapes and poles apparently dislike anonymity, the sources being known in 48% of the transactions. The showing reduces to a definite ratio the need for promotion by supplying companies of their names and brands.

Factors Influencing Choice

Various facts bob up among the reasons for selecting makes of metal. In the percentages of transactions, ease of bending and forming leads the quality reasons, corrosion resistance is an outstanding durability factor, tensile strength is first among the physical characteristics, and delivery (43.8% of transactions) outdistances all others in service arguments.

In reasons for selection by companies uniformity of product is most important while "only source" is least.

The chart covering the behaviorism of metal company salesmen shows that most of their time is spent on customers, much less on prospects.

A breakdown of some of the large companies shows that, except in one company, comparatively few contacts are now made by salesmen only. A majority of contacts is made by publication advertising only, the rest being a combination of salesmen and of publication advertising.

In addition to steel, the survey includes iron, aluminum, copper, nickel

WHO BUYS?—Survey of industrial buying habits in the big metals market shows to what extent its customers are paying attention to makes and brands, tells who is making the decisions, signing the orders.

Radio Idea Suit

NBC and advertising agency win first round in fight to protect opera amateur hour.

FIRST round in what promises to be a lusty fight over the proprietorship of an idea for a commercial radio program was concluded this week when Judge John J. Knox of the Federal District Court in New York City granted a temporary injunction restraining one Charles Henry Freeman, operator of a concert management bureau, from claiming that he has a copyright or any other rights "in a certain plan or idea known as 'Knocking at the Door of Grand Opera' " and from threatening to bring further suit. Successful plaintiffs in the action were the National Broadcasting Co. and advertising agents Cecil, Warwick & Cecil.

The case goes back to early summer when account executive Jack Warwick began playing around with an idea for a radio program which would combine the mass appeal of the still popular amateur hour and the class appeal of grand opera. With Edward Johnson of the Metropolitan Opera, Warwick worked out plans for a 13-week broadcast in which every Sunday afternoon four aspirants for operatic honors would exhibit their wares before an NBC microphone, and the grand winner, selected by the audience (with help from Johnson), would get a Met contract.

Sherwin-Williams Is Sponsor

With his prize package securely wrapped and tied, agent Warwick started to look for a sponsor to pay the $60,000 time costs, quickly found one in the Sherwin-Williams Paint Co.

Then entered Charles Henry Freeman, via the advertising columns of *Variety*. In 2-column display space he announced that he had originated the Grand Opera amateur hour idea, that he had submitted it to three anonymous national advertisers (one of whom he later identified as the Vick Chemical Co., a client of Cecil, Warwick & Cecil), that he would sue to protect his rights. Letters addressed to all principals in the projected program made the warning more pointed. With the first broadcast scheduled for Dec. 1, Sherwin-Williams began to get nervous.

Assuming full legal responsibility, NBC and the agents started legal action to shut Mr. Freeman up. Their contentions were (1) that Freeman had made no move toward getting a copyright until after the Sherwin-Williams program was reported; (2) that copyright on an idea was of questionable legal significance anyway; (3) that there had been no violation of common law rights; (4) that no breach of confidence, unfair trade practice, or conspiracy to defraud was involved, Vick's, NBC, and all other implicated companies having denied that they had heard Freeman's plan.

Freeman can and will say plenty when the broadcasts start; rumor has it that he will sue for $150,000. Encouraged by the happy conclusion of the first action this week, Sherwin-Williams will go ahead with the Met broadcasts which have been moved up from Dec. 1 to Dec. 15, and NBC welcomes the prospect of a court fight as a chance to get a clearcut ruling on a critical issue.

Fair Trade Loses

In another important case, Coty vs. Hearn, decision goes against price fixers. Trade waits New York Court of Appeals verdicts.

BY ruling for the defendant in the Coty-Hearn case (*BW—Nov9'35*), Judge Samuel I. Rosenman this week brought the count of judicial decisions on the constitutionality of New York's fair trade law to 3 to 1 against the price-fixing advocates.

Unsettling as it was, the decision was not the bombshell that last week's similar verdict was in the Doubleday, Doran–Macy action (*BW—Nov23'35*) simply because now all eyes are focused on the New York Court of Appeals where the next really decisive battle is scheduled to get under way Dec. 2.

And drug interests, which have sponsored the fair trade idea, have the dubious satisfaction of knowing that the limelight will not be entirely stolen from them by a book publisher, for on that date the Court of Appeals is scheduled to hear not only the Doubleday, Doran–Macy case, but the Seeck & Kade–Tomshinsky case as well.

How Tomshinsky Placed

R. Tomshinsky is a big New York cutrate druggist who bought a supply of Pertussin in New Jersey, offered it at prices well below the 49¢ and $1.19 minimum prices established by the manufacturers, Seeck & Kade. (Fair trade laws provide that such contract prices are binding on non-signers, the point which is in dispute in all cases.) Immediately following the Macy decision, Judge Frederick P. Close was asked to rule in the Tomshinsky case, handed down an almost identical verdict which was rushed up to Albany by special messenger to win a place on the Dec. 2 Court of Appeals docket.

Meanwhile, hearings in another suit involving two Bronx druggists and bringing together such legal talent as John W. Davis and the firm of Cravath, de Gersdorff, Swaine & Wood were postponed and presumably will be continuously adjourned until the Court of Appeals hands down its decision in the two cases now before it.

New England Confers

Its 10-year-old regional council discusses recovery problems and plans for expansion.

THE tenth anniversary conference of the New England Council, held last week at Boston, was not turned into the oratorical exchange of congratulations that this organization's 10-year record of achievement might have justified. Instead, the nearly 1,000 business men and governmental officials at the meeting made the 10-year mark a starting point for an expanded program of activities set to a recovery tempo.

Under the guidance of its president, Winthrop L. Carter, head of the Nashua Gummed and Coated Paper Co., the council concentrated on industry, agriculture, community development, and recreation as its four major topics. Special attention was given to labor problems arising from wage differentials enjoyed by Southern textile mills and the competition of cheap imports, throwing New England workers and whole communities out of jobs. Special interest was aroused by methods of building new industries as described by such speakers as Mayor Bates of Salem, Mass., and George C. Clarke of the Pawtucket, R. I., Chamber of Commerce.

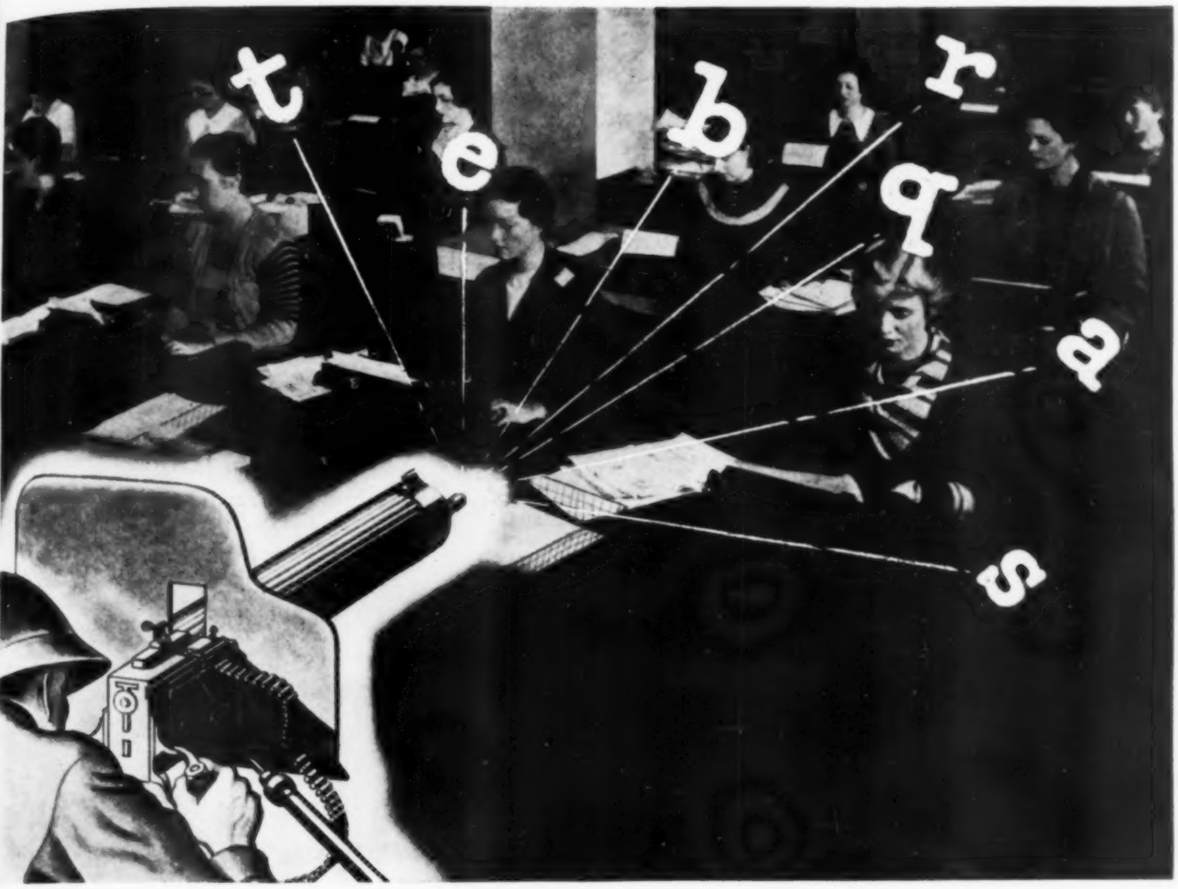
Jobs for Management

As a corollary problem, Bennett Chapple, vice-president of American Rolling Mill Co., and other speakers dwelt on the importance of building up closer contacts between management and labor and a greater management interest in production problems, with emphasis on the dangers of absentee ownership by second- and third-generation owners.

Discussion of the council's far-reaching work in developing the tourist business indicated that, with governmental aid for its program, New England might look forward to seasonal recreation spending rising from this season's $400 millions to an eventual $1 billion.

National problems entered into the discussions at many points, nobably in the agricultural group sessions. An unexpected addition to the conference program of speakers was Major George L. Berry, who came to drum up enthusiasm for NRA's conference of industry to be held Dec. 9. Major Berry's frequent references to the "investor" as a factor in the conference aroused considerable speculation as to whether Washington's highly influential defenders of the consumer are to champion the investor's cause as a sideline or if a third group has been found to help labor and so-called consumers' spokesmen to put a new lid on business management.

New England listened, said nothing, but indicated that its representatives would be watching the conference from the sidelines.



Office Enemy No. 1

. . . *and how to eliminate him!*

All day long he sprays the office with the sound of letters being typed, the banging of machines, the clanging of bells. His daily toll—the total cost of noise—is terrific. 20 per cent in staff energy. 30 per cent in executive efficiency. Uncounted errors.

Cut that cost with the new Silent L C Smith typewriter. You don't sacrifice a single advantage of the standard typewriter. It's *standard* in design. It's *Silent* in operation. Hence: Starts silent. *Stays* silent. Ask for a trial of this revolutionary typewriter.

L C SMITH & CORONA TYPEWRITERS INC SYRACUSE NEW YORK
ALSO MANUFACTURERS OF CORONA SILENT PORTABLE TYPEWRITERS FOR HOME USE

SILENCE *without* SACRIFICE

THE *Silent*
L C SMITH

Crisis for AAA at Hand

Supreme Court decisions on Hoosac Mills and Louisiana rice cases imminent; process tax payers see lower prices, more volume, increased business if act is voided.

AAA's big moment is at hand. The battle formations are rounded out and the decisive encounter approaching rapidly. On Dec. 9 the Supreme Court, aided by a flock of "friends of the court," will hear the arguments of the financially-embarrassed Hoosac Mills Corp. in its attack on the original AAA and the original taxes. One week later the 9 justices will hear arguments of 8 Louisiana rice millers against the amended AAA. Between these two cases the fate of the AAA will be pretty well covered.

Worst Setback

This week's decision, wherein the Court consented to review a lower court decision ordering the rice millers to pay their taxes and argue afterward and granted them a temporary injunction from payment, was hailed as the most effective shot yet against the AAA. In substance the Court (Brandeis, Stone, Cardozo dissenting) conceded that the 1935 AAA amendments (designed to keep processors from attacking taxes by making them prove they had absorbed all the tax themselves before suing) might not be as airtight as the Administration had hoped.

This question for debate, plus the Hoosac case which is an attack on the constitutionality of Congress' delegating Secretary Wallace as tax agent, definitely brings AAA's hash up for settlement. It is expected that the Court, after hearing both cases, will make one grand review and decision, bringing to an end the impasse between AAA and commodity handlers. Meanwhile, this week's Court decision doubtless will result in a rush of processors to the lower courts for injunctions against the taxes in the face of the provisions of the 1935 amendments, thus piling up additional hundreds of cases on top of the approximately 1,600 that were filed against the original law.

$500-Million Obligation

The money involved is a lot more important than a bag of marbles. AAA is obligated for more than $500 millions on existing farm adjustment contracts. A guess on the amount already tied up in suits is $150 millions, with more to come, undoubtedly. If taxes are tossed out, AAA has to look for new sources for revenue (having little better than $100 millions remaining in its sock) and can depend on WPA funds only until next April.

The court scramble not only involves lots of greenbacks but has been the means of turning up some new acquaintances that the Supreme Court justices probably never knew they had. Included among the new "friends of the court" are such upper crust legal names as John W. Davis, former Democratic presidential nominee; Nathan L. Miller, ex-governor of New York; and William R. Perkins, representing respectively National Biscuit, Hygrade Food Products, and P. Lorillard on the attack end. More court friends, but on the other side, are attorneys from the farmers' League of Economic Equality and the American Farm Bureau Federation.

All of this coincides with the budding of the permanent AAA plans lately discussed by Secretary Wallace and President Roosevelt. In the permanent AAA envisaged by the Administration, processing taxes would be discarded, and the goal of one-farm control contracts would be financed by legal excise taxes on farm products, by a general sales tax, or some other general form of revenue, with farm benefits arranged so as to be paid out of open government funds.

Processing industries have their fingers crossed, waiting for the big decision. For two years they have been bucking the weight of taxes, at least part of which found its way to the consumer and in some cases either hurt competitive positions of the products involved or created sales resistance which reacted on operating margins. Lard has been carrying a retail sales equivalent of 2½¢ per lb., fresh pork 3¢, cooked pork 4¢, sugar ½¢, peanut butter 1¾¢, bread ½¢ per loaf, cotton work-shirts about 3½¢ each, sheets about 8¢. More recently the brewers have had to pay a barley tax that works out at about 25¢ or 30¢ a bbl. in beer costs.

Textiles, Flour Hopeful

The mere possibility of getting rid of these burdens is one that has the textile, flour, tobacco, and meat packing trades practically delirious with hope, for death of the taxes would mean lower prices all around, more volume, and unleashing of a great amount of business that is at present simply waiting for the final word.

The textile trade, at present in the excited wrigglings of a small boom, has much to gain. Between the NRA and AAA the textile mills had a bad year in 1934. Tax elimination would enable the mills to pay up a little for cotton, quote down a little on cloth, and at the same time repair the breach in profit margins, all of which would be helpful to their individual situations and to the industry's aggregate trade.

Meat packers, assailed this year by the shortage of hogs, don't see quite as rosy a prospect. Removal of the hog tax will

Acme

THEY DON'T WANT A RACE—America's delegates to the naval talks in London will argue for limitation of armaments—but hope of success is dim. The seriousness of their mission is reflected in their faces as they leave the White House after a talk with the President. Left to right, Under Secretary of State William Phillips, Admiral William H. Standley, and Norman H. Davis.

not revive dead hogs and the population shortage will probably determine the market for some time, which means prices to producers will tend to come up by about the amount of the eliminated tax, leaving packers right where they were as far as profit margin goes (and consumers too). Of more importance to the meat companies is the indicated repair of the hog population in future months, suggesting larger slaughter, fewer empty pens, less dead overhead.

In October, tax reductions were granted tobacco companies, excluding cigar makers, tempering the threat of higher cigarette prices. On this reduction alone the four major cigarette makers are saving about $5 millions annually, and with complete tax removal would gain as much more. Cigar makers not only got no reduction, but are badly in need of a stimulus, and would especially welcome tax elimination. Their business has been on a decline for years. None of the tobacco companies passed the tax along to consumers.

Little Effect on Flour

Flour millers probably would benefit to no greater extent than a moderate increase in consumption of their products, since they passed along most of the tax to the bakers. The latter, without much chance to relay the burden to the public, have consequently been stuck with the wheat tax, as well as odd amounts on lard and sugar. Presumably they will be able to wring a small measure of profit recovery out of a possible tax elimination, although in this highly competitive business retention of any great part of the rebate is doubtful.

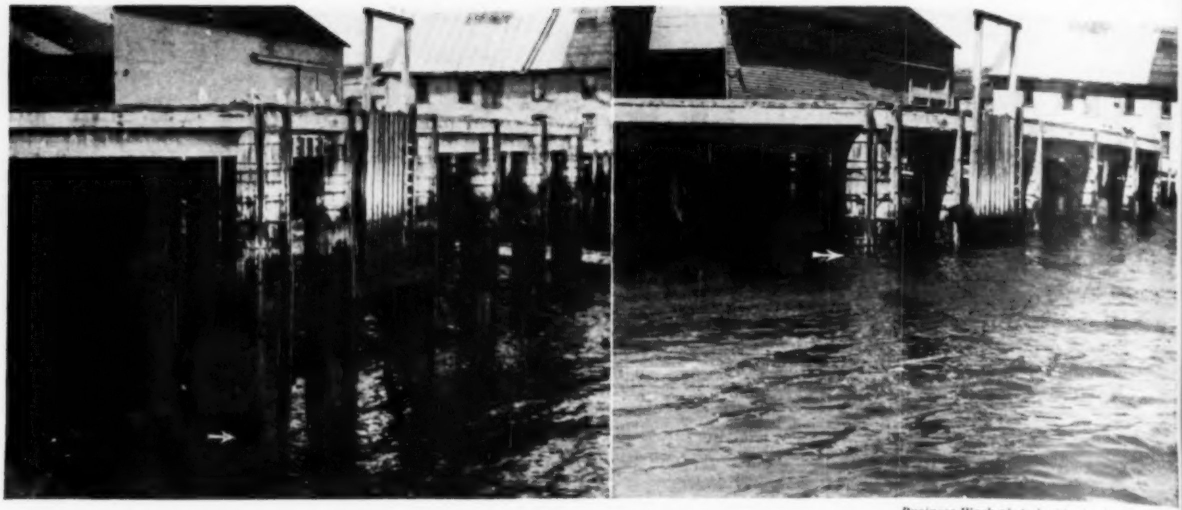
In essence, if the Court invalidates the taxes, the shift in fortune will be merely a reswinging of the balance between consumer buying power and farm buying power, unless the Administration provides other sources for farm benefits as an offset. Hence, from a broad economic point of view, little change in the national machinery would be immediately effected.

Scrip for Air Travel

Transport lines to offer $500 in service for $425; books or cards good on any of associated routes.

AIR-SCRIP, good for interchangeable transportation on any of the 15 leading airlines of the United States, reducing one-way fares 15% and round-trip rates 5%, will be offered about Jan. 1 by the associated operating companies. Hoping thus to reduce costs and make air travel more convenient, the lines will issue the scrip in two forms—travel cards and individual scrip books.

Corporations, business houses, and individuals of approved credit, upon



Business Week photo by Charles Phelps Cushing

'QUODDY'S QUANDARY—All set to harness the highest tides in the world at Passamaquoddy, Me. (the white arrows in these two photographs graphically illustrate just how high the tide is), New Dealers are now apparently inclined to back down on the project in order to shave the 1937 budget. Lack of economic justification and state cooperation make it vulnerable.

minimum deposit of $425, are to be offered travel cards good on all cooperating lines for $500 worth of air transportation, eliminating necessity of carrying large funds for transportation expenses on extended trips.

Scrip books (also in units of $500, costing $425) are to be designed especially for business executives, salesmen, and professional men. Both scrip plans will permit optional returns over any one of the four transcontinental services.

The idea is one of the first moves of the public affairs committee of the recently-formed Air Transport Operators, with headquarters in Chicago.

Railroad Picture Brightens

I.C. gets $3 millions from PWA for reconditioning; 1936 budgets make room for new freight cars, locomotives, accessories; bankers find risk more attractive.

PWA's $3-million loan to Illinois Central Railroad for air-conditioning and maintenance work adds to perceptible improvement in the rail equipment industry. There is slight prospect of more PWA financing for this purpose, as the I.C. loan was made from old appropriations now fast dwindling. The RFC is still a source of funds and there is a remote possibility that Transportation Coordinator Eastman's office may interest private capital in setting up an equipment rental plan that would stimulate car and locomotive building. Under study in Washington for several months, this scheme would finance installation of 90,000 cars a year for four years and 1,320 locomotives a year for five years.

Bankers More Willing

Immediate prospect of new business in this direction, however, relies on private bankers' growing inclination to regard more hopefully the situation of many railroads individually and the confidence evidenced by several roads in embarking upon car-building and repair programs. Railroad maintenance deferred during depression years now runs into fabulous sums, dependent at present on prospects of increased traffic and additional tonnage that may be gradually recovered with business gains and federal regulation of interstate trucking.

Shortage of rolling stock is not expected for some time to come, but the serviceable freight car surplus has dropped to the lowest figure since 1929 and weekly loadings of 700,000, if sustained, will develop shortages in some places and in some types of equipment.

Substantial volume of railway equipment business is likely to develop early in 1936, according to tentative budgets of railroad managements. Pennsylvania is planning a $30-million car-building and repair program including 10,000 new freight cars and will also, it is understood, build 100 locomotives. Burlington's plans include 1,200 new freight cars and three locomotives. While most of this construction will be handled by these roads in their own shops, there will be considerable business for outside suppliers of parts and accessories.

Union Pacific this week announced a $10-million program. It has ordered steel rails and fittings, to cost $4 millions; will spend $2 millions for ties and other materials, and has already begun spending $4 millions to rebuild box and automobile cars and install Evans auto-loading devices.

Missouri Pacific's rehabilitation plan calls for the purchase of 4,000 freight cars and repairs to present equipment. Southern Pacific has authorized a $1.1-million air-conditioning program for next year. Work has already started on its own cars and, in addition, arrangements are being made for an extension of the air-conditioning of its Pullman cars. M-K-T is reported to be considering purchase of 1,000 freight cars, also the scrapping of 600 freight cars, 25 passenger cars, and 15 locomotives. Frisco is reported to be preparing bids on repair parts for 500 hopper cars and plans re-equipping 600 box cars with steel roofs. New York Central is repairing 1,500 cars in its own shops.

Earn More, Buy More

Most encouraging to rail equipment manufacturers is the brightening picture of railroad earnings. The last complete report for Class I roads covers September, when gross operating revenues passed $300 millions for the first month since November, 1931, and net operating income jumped 38% ahead of last year, to the best level since the boom months of 1933.

With October traffic well above 700,000 cars a week, the next report will be even rosier. Nearly a score of roads that have reported for October show a 17% increase in gross revenues over last year, and a 53% increase in net. Pere Marquette enjoyed the most profitable month since October, 1929.

Direct Relief—States' Problem

II. With FERA dole being pinched off, new ways are found to raise money as general funds fail to match growing needs; percentage from bonds falls.

WASHINGTON (*Special Correspondence*)—Ever since the President stated that the federal government would quit the business of direct relief, Harry Hopkins' FERA has been pushing that burden, steadily and firmly, out of Washington and into the states. Last week mayors of 100 cities met and heard renewed assurance from Roosevelt that no one would starve—but the states would have to pick up their part of the load. The mayors carried the word home.

As the time nears when no state will be left on the federal dole, state governments are assuming a steadily increasing proportion of the burden. Traditional methods vary. In New England, the town is the responsible unit. In New York and other industrial sections, the state is the large factor. In the Midwest, it is the county.

Available Funds Charted

State and local funds available for direct relief from Nov. 1, 1935, to June 30, 1936, in the 26 states which have been cut off the federal list to date, according to FERA, total:

Alabama	$2,200,000
Arizona	240,000
Arkansas	......
Colorado	1,500,000
Connecticut	4,800,000
Delaware	120,000
Georgia	800,000
Idaho	480,000
Indiana	7,500,000
Iowa	2,600,000
Kentucky	2,200,000
Maine	2,600,000
Maryland	2,400,000
Mississippi	1,000,000
Nevada	125,000
New Hampshire	700,000
New Jersey	18,500,000
New Mexico	......
Ohio	6,000,000
Oregon	3,000,000
Rhode Island	1,100,000
South Carolina	......
South Dakota	1,450,000
Vermont	......
Virginia	......
Wyoming	500,000

FERA's estimates are based on funds remaining for direct relief, after deducting contributions made by local sponsors for WPA work projects. FERA refuses to concede that state and local governments are unable to bear the cost of caring for the unemployables; points to the fact that the $533-million outlay for relief by state governments, as such, is still a minor item in their budgets, amounting to 4% of total state expenditures in the five-year period from July 1, 1930 to June 30, 1935 (according to an FERA analysis).

As pressure has increased, new means have been sought by state governments to raise relief money. In 1930-31 only four states raised emergency relief funds, and these were obtained from general revenues. The states were Connecticut, Maine, New Hampshire, and Oklahoma, and they raised a combined total of $546,750. The importance of this source declined in 1931-32 when general revenues contributed 52.3% and bond borrowings 22.6% of $56,949,000 spent for relief by 11 states.

Relief revenue from sales taxes entered the picture in 1932-33, accounting for 13.2%, or $11,943,000 out of a total of $90,358,000 spent for relief by 26 states. Of this, 28.3% was supplied by general revenue, and 52.7% from bonds, other forms making up the balance. During 1933-34, expenditures by 39 states rose to $163,507,000, of which bonds contributed 63.9%, sales taxes 19.5%, and general revenues 12%.

The sharp decline in one percentage, however, did not mean that less money was being spent from general funds for relief. The four states which dipped into regular revenues in 1930-31 used an average of $136,687 per state; by 1933-34 the 39 participating states were contributing an average of $503,098 apiece to the huge relief pool from general funds.

Trend from Borrowing

The trend from financing by means of borrowing was evident in 1934-35 as many states realized that they would have to get on a cash basis and the proportion of funds obtained from bonds dropped to 58.9%, although it accounted for $130,494,000 of a $221,582,000 total. The trend away from borrowing is expected to continue. Sales taxes produced $32,499,000 but dropped to 14.7%. The drain on general revenues increased, amounting to 13.8%, or $30,488,000. Beer and liquor revenues now are helping out, contributing 5.6%, or $12,535,000. Automobile revenues also are being diverted for relief purposes, accounting for $10,772,000, or 4.9%. Income taxes added $7,931,000, or 0.6%, and miscellaneous sources 1.5% of the 1934-35 total.

During the course of the present fiscal year FERA expects that the contribution of state governments from all sources for relief will reach a new high of $250 millions, or $30 millions beyond the 1934-35 peak.

It's Air Conditioning

—Only if it does these things, says Better Business Bureau.

MAKERS of genuine air-conditioning equipment have grown tired of seeing a conglomerate lot of ventilating, air-moistening, circulating and heating devices or perfume dispensers sold to the public as air-conditioning equipment. They have found that the National Better Business Bureau, Inc., shares their sentiment.

Last week the latter issued a bulletin intended to keep those who have occasion to use the term "air-conditioning" in public announcements and advertising in the straight and narrow path. Indirectly it implies that those who are tempted to wander may find not only the B.B.B., but also the Federal Trade Commission sitting on their doorstep with a stop order.

Definitions Drawn Up

With the advice of interested trade and engineering interests it lays down these definitions:

(1) Summer Air-Conditioning should, as a minimum, cool, dehumidify and circulate the air;

(2) Winter Air-Conditioning should, as a minimum, heat, humidify, and circulate the air;

(3) Year-Round Air-Conditioning should, as a minimum, cool and dehumidify the air in summer, heat and humidify it in winter, and circulate it.

It is pointed out that the simultaneous control of temperature, humidity, and motion of the air constitute the minimum requirement for any apparatus that claims recognition as an air conditioner and that these functions must be performed automatically to be effective.

Incidentally the B.B.B. also takes a slap at manufacturers of underwear, hats, and other unrelated consumer goods who have advertised their products as "air-conditioned" in order to cash in on the present wave of popular interest in the art.

Set Up Standards

Meanwhile, responsible manufacturers of real air-conditioning equipment welcome the progress made by a joint committee to formulate standard methods for accurately rating and testing their products.

Already standards on rating the fan performance, air resistance of unit, and testing of cooling equipment have been adopted. Others are to follow shortly.

Constructive factors in and outside the air-conditioning field believe that this early effort will help substantially in preventing unscrupulous concerns and promoters from gaining a foothold in the industry. They add that, if this doesn't work, important patents held by well-established concerns may eventually have to be brought into play.

Mass Market Movies

New camera which retails for $5 also takes snapshots.

AN entire new mass market for home-made movies is opened up by Moviematic Camera Corp., New York. It is putting out an automatic movie camera using standard 16 mm. film, retailing for $5. An adjustment allows the taking of snapshots with the same machine. Distribution will be principally through drug and department stores. The company will try to keep its camera away from price cutters.

Eastman, duPont, Agfa-Ansco are making film for the Moviematic. It takes 10 feet of film which costs $1. Forty snapshots can be made with one loading. The camera has to be wound like its expensive cousins, but elimination of many sprockets and gears achieves the low cost in addition to simplifying operation. Developing, printing, enlarging will be done by the company free of charge. If desired, the picture will be delivered in a book movie, which operates with the thumb.

Simplicity of the Moviematic is expected to bring it into the field of Christmas playthings. The 10-ft. films can be pieced to form long reels. Projection isn't a problem since there are hand machines selling down to $1. The low initial cost is expected to enlist new hordes of movie makers who will boost the demand for film and who later may graduate into users of higher-priced equipment.

California Builds

Local councils to suggest ways of modernizing business blocks.

BUILDING construction in San Francisco, already of record proportions, is expected to receive further stimulation from organization this month of Modernize-for-Profit Council, under auspices of city's chief business groups in cooperation with local officials of FHA.

The council, which begins operation Jan. 1, consists of representative architects, builders, and building artisans, who will photograph each city block, then go over these, design modernization plans in detail, and present finished suggestions to business firms in the block. Cooperation of the council will enable these firms to carry out the ideas, and FHA will then step in, if needed, and furnish the financing.

Building operations resulting from the plan, which will be adopted in other California communities, will augment the already extensive construction activities in the state where building permits issued during the first 10 months were 106% above the same period of '34.

Life Insurance Chiefs Rejoice

Year-end bulge in sales will make new policies in 1935 equal those last year; and there are fewer cancellations, loans, and premium notes.

LIFE insurance presidents this week looked at the figures showing a year-end bulge in their sales and rounding out a satisfactory year. There will be lots of congratulatory backslapping when they meet in New York next week for their annual convention.

After a mid-year slump from last year's new policy volumes, business has picked up with autumn, and a good December will balance the year off at about \$15 billions, the same as last year. That was a 10% gain over 1933, the first upturn since 1929.

The curve did not continue upward at the same rate this year, but that fact is not worrying the life executives. For there are other and more significant indications of definite recovery.

The most important, from the point of view of earnings, is that cancellations were again reduced. The insurance people always figure it is more work to keep the business on the books than to get new business, and lapses were a nightmare a couple of years ago.

Other significant indications are the fact that policy loans and premium notes dropped off further, and that repayment of old loans has definitely started.

The insurance people cannot put their finger on any one answer to the question why they did not get more new insurance. A dozen companies have a dozen explanations. The 1934 gain was large, and maybe most people who had worried about too little protection took care of their needs then. Perhaps a more sanguine mood led the public to buy new cars and put off insurance awhile.

Insurance people don't believe the stock market is getting much money that should be going toward premiums, but they wonder if another "new era" market will breed another crop of investment experts able to do better with their own funds than insurance company analysts can.

What did the finance departments do with the \$1 billion of new money that boosted life insurance assets to almost \$23 billions this year? Just as in the previous three years, the greater part went into government bonds.

At the year-end, almost 10% of the portfolio will be United States obligations, the highest ratio since 1921; state and local government bonds will make up another 5.7%, and there will be \$500 millions of foreign governments, bringing the total of government bonds to 17.6% of all investments. This percentage is exceeded only by urban mortgages.

Life companies this year were slightly more active in making mortgages, including some on farms, even though the government was competing with them at low interest in the rural areas. But maturities and foreclosures exceeded the new loans, causing a decline in the aggregate of mortgages they held.

Foreclosures were less numerous, and sales of real estate taken over from distressed borrowers were better in volume and price. Nevertheless, owned real estate continued to increase. But it no longer causes worry.

Office after office reports increased activity in modest residential property practically all over the country, at prices that originally were set well above the depression low, or at markups from offering figures that were made a year and two years ago.

Interest is gradually spreading to the larger properties, and syndicates are inquiring for bargains here and there. Income from the larger properties is still low but it is improving, not so much because of higher rentals as because of better occupancy and collections.

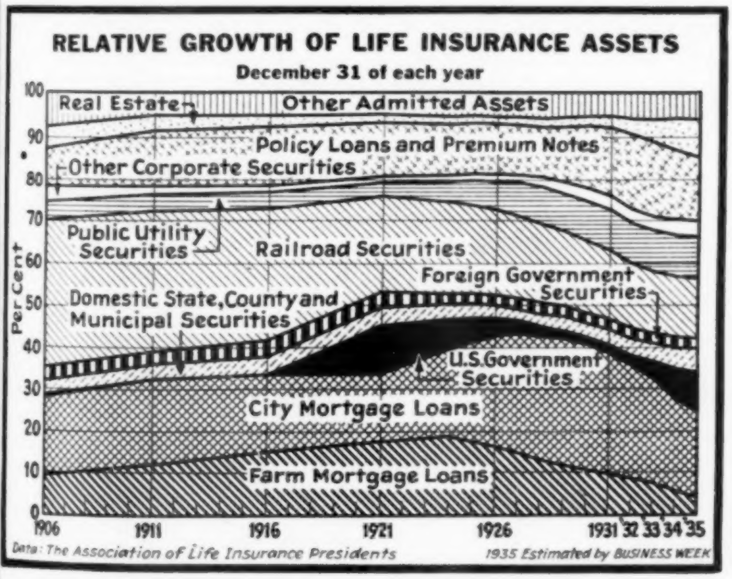
Insurance company income from real estate is much better, because rehabilitations that took most of the revenue immediately after foreclosure have been finished.

Concentration of new investments in government obligations is not a voluntary policy of the insurance companies.

A large part of the refunding issues of the public utility companies has found its way into insurance accounts, and the utility portfolio is now twice what it was in 1927. Industrial and railroad investments have increased less rapidly because they have been offered in smaller volume, but the total corporate security holdings are sharply higher.

Government competition through the social security program is not the bugaboo to insurance people that it was last year. Even at that time there were life company presidents who said government old-age insurance would boom their business, just as war risk insurance did. That attitude is more general now, particularly since the act finally passed eliminated the voluntary contributory plan, which would have permitted anyone to buy annuities from the government, irrespective of his employment status. The benefits under the act are too small to supplant annuity sales, and there is little provision in the act for estate building.

Social security now is to the insurance companies just what it is to all big employers, a tax problem and one of getting the scheme reformed into workable shape. They are more concerned about getting the government out of the loan business than they are about governmental insurance.



Tractors on Rubber

Tire companies develop \$3½-million yearly market with new treads for farm use.

RUBBER tires weren't used on the farm in 1929—but they mean \$3½ millions yearly to the rubber industry today. And the market didn't really get started until 1932; it took that long to design and

prove tires especially fitted for tractor service and other farm jobs. Now the industry is growing by leaps and bounds.

Goodrich developed a so-called zero-pressure tire which gave the traction found lacking in ordinary pneumatic tires. The zero-pressure tire is naturally puncture-proof and it is particularly well adapted for heavy road machinery, but because of the high initial cost Goodrich itself has added another design for lighter duty, for the less exacting farm market.

Firestone, in the meantime, met the problem of traction by providing a tread of extra tough rubber, with deep grooves between cross-bars. Open grooves, from the sides of the tire beyond the center of the tread, provide a self-cleaning feature. A double layer of gum-dipped cords lock the tread and cord body, add further strength.

No Chains Needed

In the field or on the highway, chains are unnecessary with the new farm tires. And the farmers like them—Goodyear announces that its farm implement tires, with the standard diamond pattern hollowed out to aid self-cleaning, have shown the biggest increase in their third year of sale of any of new Goodyear product.

The market has been nourished by a combination of favoring factors, not the least of which has been the marked increase in new tractors—estimated at 165,000 for 1935—which are finding their way to the farms of the country. A total of 1,500,000 tractors already in farm service, are now on rubber, mounted on special drop-center rims manufactured for farm service. In 1932 only 1,100 rims were built and sold. In 1933 this figure grew to 17,510; in 1934 to 74,218; for the first half of 1935 to 103,529.

"All Purpose" Tractors Urged

Only 5% of factory-delivered tractors in 1933 were rubber-equipped; this figure jumped to 28% in 1934 and to an estimated 45% for 1935, will be further spurred as "all-purpose" tractor legislation receives more serious attention by the law-makers, intent on preserving present highways.

Many advantages are claimed for rubber tires on farm equipment; it is said that they (1) make possible operation in a higher gear because of reduced tractor rolling resistance, less power consumed in freeing wheels from loose soil; (2) speed up the work as much as 25%; (3) cut fuel consumption 25% to 33⅓%; (4) do not cut and kill turf or alfalfa and roots, punch hay into the ground or injure plant crops while cultivating, as do some steel wheels; (5) permit movement of the farm machinery over the highways; (6) do not throw dirt over small crops nor raise dust clouds which are unhealthy and annoying; (7) ride more easily, with less operator fatigue.

Polling America

With entrance of Gallup reports in survey field, plumbing public opinion becomes a business.

NOTHING fascinates the average American newspaper reader like scores—scores of baseball games, bridge tournaments, political contests. Any kind of tabular information which indicates who won and by how much.

This observation was one byproduct of a survey of reading habits conducted in 1931 by Dr. George Gallup of Northwestern University. (In the advertising sphere his survey is most remembered for its discovery of high reader interest in comic strips, a finding which accounts for the four-year popularity of the cartoon advertisement and explains the continued demand for display space next to pure tomfoolery.)

Year or so later, Dr. Gallup, by then marketing research director of Young & Rubicam, advertising agents, reasoned his way toward a corollary observation. In the field of sports, reader appetite for scores is well satisfied. In the political arena, nobody has any idea of how the battle is going until the infrequent elections roll around and with them the *Literary Digest* polls. The popularity of these polls since their inception in 1924 lent considerable substance to Dr. Gallup's conviction that a political scoreboard of public sentiment on issues as well as personalities would make a good newspaper feature.

Looking for a Formula

From headquarters in Princeton, N. J., Dr. Gallup, by now incorporated as the American Institute of Public Opinion, experimented with the several research techniques which marketing men employ in determining why the public doesn't buy more horse radish or what knuckle oil is most popular.

Two years of work yielded what he believed to be the right formula. Accurate yet economical, it involves both mail ballots and in the lower economic brackets—specifically the unemployed—direct personal interview.

Encouraged by success in predicting last year's congressional elections within a maximum error 0.6%, Dr. Gallup took his plan for a weekly poll of public opinion to the press. Last month, first of the regular feature pages, labeled "America Speaks," began to appear in 53 newspapers throughout the country.

First poll was on government spending; said America (through Dr. Gallup, "Too much." Second poll, to be repeated every four weeks, was on Roosevelt's standing. Result: 53% are still with him; second vote on this question to be reported next week will show the same percentage. (In 1932 Roosevelt had 59% of the popular vote and Gallup estimates that the loss of

another 3% would place his electoral majority in decided jeopardy.) In the third poll 60% voted thumbs down on curbing the power of the Supreme Court, and the fourth poll showed pro and con opinion on the success of repeal running about neck and neck, which indicates that prohibition may be back as a political issue before long. Subsequent ballots will weigh sentiment on G.O.P. candidates and on the bonus.

Digest Poll Started

With the entrance of the daily press into the field, the business of telling America what America thinks classifies as one of this season's major new industries. Two weeks ago the *Literary Digest* began mailing out the first ten million ballots to appraise Mr. Roosevelt's reelection chances. In 1932, the *Digest* forecast Roosevelt's victory within an error of 0.72%, though one year later it missed by a wide margin the vote for New York's Mayor LaGuardia.

On a third front *Fortune* presents its "Quarterly Survey," conducted by research expert Paul Cherington. In the first instalment, published in the July issue, *Fortune* took votes on sharing the wealth, taxation, cigarettes, automobiles, and post-depression purchases. The October instalment included reports on security, inheritances, treatment of labor, living costs, investments, and lotteries.

Just entering the field is Dr. Daniel Starch and his private New York research agency which will furnish six newspapers with the results of its polls of public opinion.

Ask Land Tax Limit

Real estate boards push fight to put ceiling on levies; "experts" deride plans of 15 states.

PEPPED up by reports of $200 millions cut from the annual real estate tax bill in eight states that have new tax limitation laws, the National Association of Real Estate Boards is driving ahead in hopes of inducing more state legislatures to put a ceiling on property tax rates at next year's sessions, or to start constitutional amendments to put the limits right in the charters.

Against opposition from almost every other interest, the real estate people are making headway. Tax experts and economists scornfully call it the Chinese "foot-binding" method of trying to get governmental economy, but even in New England, seat of local government autonomy, the Boston Real Estate Exchange is leading a crusade for a Massachusetts statutory over-all limitation of taxes on real estate. Real estate interests in Rhode Island, the only New England state with such a law, are go-

ing to try to tighten it up at the coming session of the state legislature.

Every state ouside of New England has had tax limits of one kind or another at times in the past, most of them dating in the '70s and '80s, many subsequently modified, few ever repealed. The depression brought a revival of the practice which has been in increasing vogue since Ohio wrote a restrictive amendment into its constitution in 1929. It has reached a point where David M. Wood, municipal credit counsel to important investment bankers, says that such taxation limitations are the "most popular attempt to destroy the enforceability of municipal obligations."

Simeon E. Leland, tax commissioner in Illinois where a fight is now on for a constitutional tax limitation, sums up a study of the Public Administration Service on the subject by concluding that the laws "have not limited property taxes; have not reformed state-local tax systems; have not produced economy in government; and that, where tried, the scheme has so frequently curtailed governmental service and produced fiscal chaos that the plan has been permanently discredited."

But the National Association of Real Estate Boards doesn't care much what bankers' counsel or tax experts say. "Tax limitation comes not as a device propounded by tax economists. It arises as a naïve expression of popular will," says H. U. Nelson, association secretary.

Hence, in 15 states, real estate groups have campaigns on. Besides Massachusetts, Rhode Island, and Illinois, there are New York, North Carolina, Florida, Virginia, Wisconsin, Minnesota, Iowa, North Dakota, Montana, Utah, Texas, and California.

Oil Industry Backfires

An American Petroleum Institute committee attacks certain motor engineering practices, suggests remedies.

PETROLEUM refinery engineers have their dander roused over shortcomings of automobile design from the fuel standpoint. Recently they released their pent-up feelings in a "first progress report" of the American Petroleum Institute's Automotive Survey Committee. This is a rousing attack on certain phases of automobile engineering. It is charged that the fuel producer is placed on a very hot spot by the practice of changing motor design without proper regard for owners of older models, that the refiner is left with the difficult job of producing a gasoline which the new motors require as well as supplying the older cars which form by far his greater market.

Motor makers recognize the hand and the sentiments of A. Ludlow Clayden, research engineer of Sun Oil Co. Mr. Clayden has been hammering hard on this subject for years. Detroit's attitude toward the new outburst is generally that motor engineering is necessarily limited by problems of manufacture and marketing, that the public purrs happily over better and cheaper new models, that the oil industry has a big enough stake in the market to produce efficient fuel whatever the trouble and cost.

No Words Minced

The A.P.I. committee hits its problem square on the button thus: "The automobile manufacturer wishes to obsolete old cars as fast as possible in order that he may replace them with new machines. The market of the refiner is affected by the number of cars in use, and is but little affected by the age of these cars." Fuel and lubricant requirements for new cars can easily "be quite different from those of the average car on the road."

The report submits an interesting breakdown of cars now in commission. (Surprising to the city dweller is the estimate that 7.3% of all cars are the old Model-T Ford.) In 1931, about 87% of all cars built didn't require over 65 octane. In 1935 nearly all cars manufactured required gas not much under 70 octane and most of the 1934 cars were in the same class. Here is an "outstanding example" of how the automobile industry has "pushed" the petroleum industry. If the motor designers continue this trend, the report says the oil industry can't keep up without raising the price of fuel.

Autres Cars, *Autre* Gas

Capping its argument, the report states that the present octane rating of the average regular gasoline is required by less than 30% of the cars, while the cheaper-to-produce 65 octane would completely satisfy the rest of the market. Similarly, the refiners are unable to provide volatility "which would be realized instantly by 78% of our customers because of the shortcomings of about 22% of the cars on the road."

The report points out that only recently cars became sensitive to motor oils. It adds that certain new bearing metals tend toward corrosion if used with particular types of oil at high temperatures. This situation was precipitated by one automobile manufacturer who first employed the bearings in 1935 models. Though the weakness was disclosed, "it is positively dismaying to find

the 1936 model of this same car only slightly improved." Other manufacturers have used these bearings with success because they held down oil temperatures, yet it has been suggested that all motor oils should be changed to accommodate this one maker.

When free wheeling appeared ("like a comet in the sky") automotive engineers demanded special lubricants which the oil industry immediately provided. Today (says the report, sadly) free wheeling appears to be vanishing while special free-wheeling oils are lying unsold in warehouses. It was shown that free wheeling didn't require abnormal lubricants anyhow.

The A.P.I. committee suggests definite remedies. For one, it would reverse the present procedure whereby oil company laboratories are using cars to test products. The committee would "use products to test cars." There should be organized testing of automobiles by oil experts—the results, of course, to be made available for automotive engineers. Working together, oil and automobile experimenters learned lots about the best types of cylinder head and the importance of spark plug location. After delivering its resounding smacks, the hand of oil research is extended to its sister industry in an offer to cooperate on other technical difficulties.

Factories Will Buy

Of 332 plants questioned, 102 plan new electrical purchases to replace aging power equipment.

MORE evidence of impending purchases for industrial modernization piles up. *Electrical World* staff men went to Joliet, Canton, Rochester, and the Central Hudson Valley, visited 332 factories to find out how many of them are planning to buy additional or better electrical equipment "as soon as things look right" to them. These plants are of all types and sizes—metal working, leather, optical, food, buttons, furniture, paper, shoes and all the rest—big and little. Their aggregate connected horsepower is 496,314 and 55% of this equipment is over 10 years old.

Of these manufacturers, 102 are planning to buy. They have definitely listed 352,619 hp. in equipment to be purchased (71% of their present power load), all scheduled for expansion or replacement. In fact, 186 of these companies have already discussed their plans with the local power companies. (Incidentally, the power companies of this country have some 8,100 men calling on electricity users.) In this prospective equipment there is much industrial lighting, considerable welding and many motors, as well as substation equipment, furnaces, and control.

New Products

New things, new ideas, new designs, new packages, new manufacturing and marketing methods.

GENERAL ELECTRIC CO. has announced a new multi-conductor elevator control cable as totally fireproof and resistant to moisture, oil and corrosive vapors. It is furnished with up to 37 conductors, each testing to dielectric strength of more than 25,000 volts.

THERMO-SAN pottery-lined containers are offered by the Ceramic Container Co. for shipping of perishable liquids, fruit juices, milk, beer, etc. They have a double-insulated steel, drum-shaped outer housing, an all-pottery core, a dry-ice compartment for cooling, are hermetically sealed while in transit, are available in 4- 8- and 16-gallon sizes on a lease and rental basis.

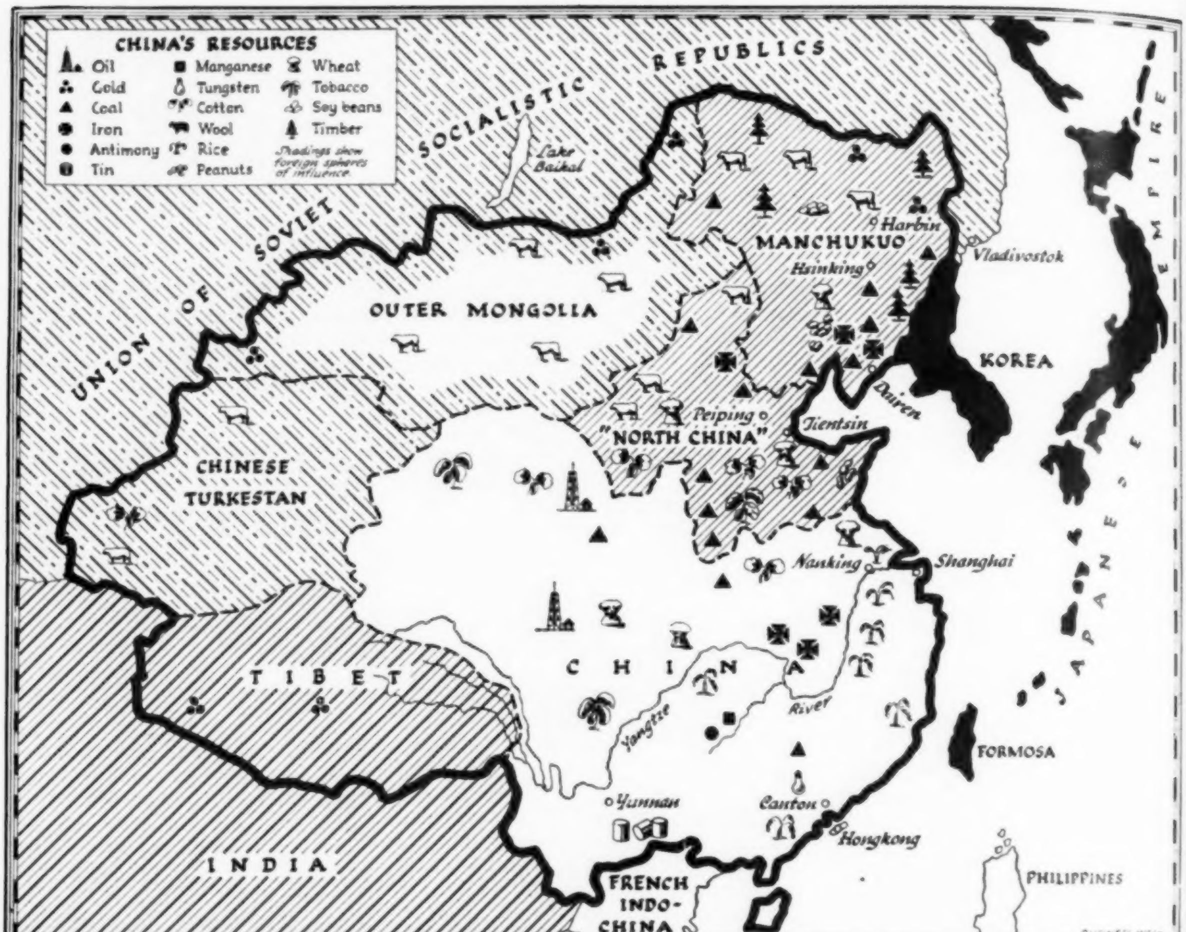
SLEEPSAFE INDUSTRIES, INC., advertise the new Sleepsafe mattress as being made of impregnated materials that render it non-combustible, non-inflammable and vermin-repellent without sacrificing resiliency, durability, or other desirable qualities.

KOROLAC (offspring of the synthetic rubber-like material, Koroseal) is offered by the B. F. Goodrich Co. for covering plating-racks and parts that are exposed to alkalies and sulphuric, nitric, hydrochloric, and other acids. It is not affected by these, normally has the appearance of hardjelly, is liquefied by heat and shrinks in cooling. No plating solutions, now used commercially, are contaminated or fouled by it.

A NEW line of single- and double-throw, non-fusible switches is advertised by the Square D Co. as explosion proof. All enclosures are weatherproof, bolted with corrosion-proof bolts. They can be padlocked in on or off positions, are of the heavy-duty industrial type, meet the requirements of the National Electrical Code for use in hazardous locations.

FLEXTON, JR. is offered by the Hinde & Daugh Paper Co. as a translucent, corrugated paper, supplied in a large range of colors and gold and silver finish, for use in window, show-case and store interior displays. It comes in rolls containing 50 square feet each, nominally priced to promote its use among independent retailers.

DITTO, INC., offers a hand-fed rotary duplicator that is designed to meet requirements of concerns that do not need automatic feed and electric drive equipment, but can make use of a popular priced, light weight and entirely hand-operated duplicating machine.



PARTITIONING CHINA—The world's most populous market (450 millions) is being divided. Britain still dominates little known Tibet and busy Hong Kong, has the largest investment in the Yangtze valley. France has pushed its economic penetration from Indo-China into the rich mining region in Yunnan. Russia dominates vast but sparsely-populated Chinese Turkestan and Outer Mongolia. Japan has annexed Manchukuo, is preparing to do the same thing in North China, whose uncertain southern boundary is almost sure soon to be established at the Yangtze. Kang Teh may rule again in his home town—Peiping.

Cutting the Chinese Pie

China has lost all but the heart of the old Celestial Empire, and Japan is nibbling at that. Business hopes for a showdown on Shanghai and its rich hinterland.

AMERICAN business has begun to view with alarm the breakup of China.

In 1931, the Chinese definitely lost to Japan a region twice the size of Texas and with 30 million people.

A few months ago, one of the westermost provinces, best known in this country as Chinese Turkestan, set up its own autonomous Soviet and strengthened its ties with Moscow. This region is as big as Texas, but the population is small, less than three millions.

Outer Mongolia, that part of the great dry northwest plain which stretches along the Siberian border, has had its own Soviet republic for 10 years, with closer ties to Moscow than Nanking though still admitting Chinese control. It's twice the size of Manchukuo but fewer than two million nomad Mongols live in the region.

But the really important loss of territory is just now taking place, for the progress of Nipponese domination in North China absorbs an enormous population, an agriculturally rich region, and —for the first time—threatens three of the 18 provinces which were the heart of the old Celestial Empire. With this region goes Peiping, long the capital of China and still second in size to Shanghai, and Tientsin, modern commercial city and port serving nearly 100 millions in the great northern plains.

American business is unaffected by Soviet expansion along China's distant western borders, but Japan's conquests already affect millions of dollars invested by American companies.

National City Bank has already closed its branch in Mukden, in Manchukuo.

All of the foreign oil companies—including Royal Dutch-Shell and Standard Oil—have been forced to turn over their retail facilities in Manchukuo to the government oil monopoly.

Crackdown on Tobacco

The British-American Tobacco Co. has been warned that Manchukuo plans a government tobacco monopoly.

Tariffs have been revised by the new government in Hsinking to favor nations which will give Manchukuo concessions. Since only Japan and Salvador have recognized the new government, it means the market is closed to most goods unless they come from Japan. At the same time, the gauge of the rail lines bought from Russia has been converted to the Japanese gauge.

and Japan-controlled shops are providing new equipment and rolling stock.

In forcing North China to set up an autonomous state, the Japanese are going ahead with plans to secure a dominant position in North China.

No Chinese political or military leader who is in opposition to Japan holds any official position of consequence in the five provinces around Peiping. Japanese troops are garrisoned in Tientsin and Peiping, and large forces are quartered just north of the Great Wall, in Manchukuo. Japanese agents are scattered through Inner Mongolia, and Japanese commercial scouts are penetrating as far west as Shensi.

Biggest U. S. Investments

Standard Oil and British-American Tobacco represent the largest American investments in North China. In mountain villages in Shansi, where the inhabitants have never seen an automobile or listened to a radio, or in crowded Shantung where the Germans built railroads and an arsenal as long as 30 years ago, the products of these two companies are almost as well known as tobacco and oil in most American towns.

American and European banks have large branches in both Tientsin and Peiping. Both Belgians and British have railroads and coal mines. American automobiles and trucks far outnumber all others in both cities and along the few roads where automobile traffic is possible. Many of them are sold from handsome display rooms and serviced from large garages maintained by Americans. There are British department stores in Peiping and Tientsin, and dozens of offices of foreign importers and exporters.

Real Peril Now Coming

British investments were the largest affected by Japan's annexation of Manchukuo. But foreign investment in that region was small, compared with holdings in China proper. These are large around Peiping, enormous at Shanghai and up the Yangtze Valley.

Business men familiar with China know that there is no natural boundary where Japan's present claims stop, and that it is only a matter of time until all of China south to the Yangtze River falls under Japanese domination, unless someone acts to stem the advance.

Foreigners generally are liquidating their holdings in the north. Evidently they have been warned by London, Washington, Paris, and Brussels that nothing is going to be done to stop Japan there. They are even beginning to be hesitant over prospects further South.

Japan is after three things: (1) protection, through control of a base on continental Asia; (2) assured markets for Japanese goods and a place for profitable investment; and (3) essential raw materials. The Powers know that China's richest market is Shanghai and the Yangtze Valley, and that some of the country's best mineral resources are in the south. Nearly 80% of the world's antimony, for instance, and 75% of the tungsten comes from southern China, and French interests work important tin mines in Yunnan.

One of the world's richest territories lies only a little south of China in the region including Singapore, the Philippines, and the Netherlands East Indies. It provides much of the crude oil now sold in Japan; the richest tin mines in the world; vegetable oil for Europe and the United States; and rubber for all the world. Japan has ambitions to control some of these properties. So far, Tokyo has talked of buying them. Uncontested success in China may change such proposals to threats.

Business is alarmed by the rapid partitioning of China. Next advance by Japan inevitably will reach to the Yangtze where France, Britain, and the United States have most at stake. If they make no protest there, it forces them to make their last stand in their own colonies and protectorates.

Treaty Reactions

Canadians ask Ottawa for more treaties to counterbalance losses expected from United States concessions. Empire pact is next.

OTTAWA (*Special Correspondence*)—Arguments in the United States over reciprocity pact are causing alarm here. Recalling the 1911 agreement made between Taft and the Laurier governments and its rejection by the Canadian people, and noting how enthusiastically Washington is boosting the pact as a very beneficial thing for the United States, political observers here are apprehensive that Canadian enemies of the treaty may use these statements to argue that it cannot also be such a good thing for Canada.

Canadian seaports claim they stand to lose heavily in traffic by the wiping out of the existing preferences on imports entered through Canadian ports.

Automobile manufacturing interests also are seeking compensations for reduction of protection in the home market. They want provisions made to facilitate increase in their export trade. Neither the industry nor the government has yet worked out the exact effect of the treaty on automobile duties.

Commercial relations with Soviet Russia, severed when the Bennett government placed an embargo on Soviet imports, will soon be restored. Success is also predicted in negotiations to settle the Canadian-Japanese trade war.

More remote but strongly in prospect is revision of the Ottawa Empire pacts.

Business Abroad

French political and monetary crisis causes Britain to ease pressure for sanctions. Germany runs into new financial difficulties as free devisen dwindles. Brazil quells revolt. Japan takes control of new slice of China.

ECONOMIC sanctions against Italy, which normally would occupy first attention in every country this week, have been pushed into second position by the acute political crisis which has developed in France, and which once more seriously threatens the stability of the franc. Berlin definitely attributes the postponement of the oil embargo to the French crisis and not to any concrete hopes of an early liquidation of the war in East Africa. London thinks that the French situation signals the end of sanctions pressure, since it is seriously doubted that the United States can cooperate because it will not be able to control oil exports.

Japan Drives On

Japan is pushing ahead relentlessly in her effort to establish effective control over China (page 30). Latest move brings Japanese domination into the very heart of ancient China, threatens more directly than ever before Britain's \$1 billion investment in China, most of which is in Shanghai and the Yangtze valley.

Disturbances in Latin America—particularly in Brazil—are not yet seriously threatening any government.

Germany

Free foreign exchange falls to new low, threatening further contraction of American imports. Germans will benefit from new trade pact with Poland, at expense of Britain and United States.

BERLIN (*Cable*)—Business has been stirred this week by the announcement of the Reichsbank that only 20% of Germany's current exports now bring free devisen to the country, and half of this is earmarked for current interest, "standstill," and similar payments. This means that barely 10% of the proceeds of exports are free for use by the Reichsbank to pay for raw materials which can not be secured in countries with which Germany has clearing agreements.

This serious situation has already caused the government to limit further the list of goods which Germans are permitted to barter privately abroad. Each new tightening of the controls on foreign trade reduces German imports from the United States, because these require payment in dollar exchange which Germany lacks.

This and other domestic uncertainties is helping to depress the stock market. The food situation, on the other hand, is expected to be eased by the importation of 170,000 hogs from Poland and Denmark. Shipments will be completed before the end of the year.

The importance of the new commercial treaty between Germany and Poland, which came into force on Nov. 20, may be gauged by the fact that it terminates 10 years of tariff war between the two biggest countries of Central Europe. The trade agreement of 1934, following the political entente, removed only the most obnoxious retaliatory measures on both sides. It did not restore the most-favored-nation clause, and, up to Nov. 20, German automobiles and other manufactured products when imported into Poland paid higher tariff rates than the competitive American or British products.

This led to a contraction in German-Polish trade which is without precedent in post-war European commercial relations. German exports to Poland shrank from 400.6 million marks in 1928, to 38.8 millions in 1934. Polish exports to Germany were 357.3 and 53.9 million marks, respectively. Germany's share in Polish imports dropped from almost one-third to 12%, while the United States moved into first place with 15.4%.

Now Germany will have the benefit of Poland's tariff concessions to other countries. In particular, the low import duties on automobiles which Britain was able to secure early in 1935, will now—to the great dismay of British (and American) manufacturers—be extended to German imports. Much will yet depend on the import quotas (not yet made public) which Poland conceded Germany, but the latter is confident that it will capture the lion's share in Polish automobile imports. The significance of this is enhanced by the fact that Poland is still the least motorized country in Central Europe.

In spite of all recent criticism of international clearing, payment will be effected by both partners through a newly-instituted clearing system. As Poland is not a creditor of Germany and is, therefore, not interested in a German active trade balance, the exchange of merchandise is to be kept under the clearing system on an even basis. Germany is likely to grant longer credits for her manufactured goods while Polish farm products will in most cases be paid for in cash. Therefore, to ensure a smooth operation of the clearing, Germany has advanced the Polish Clearing Office a sum of 10 million zloty—probably the first and only German "loan" to a foreign country for many years.

Great Britain

Coal strike will be settled by government intervention if necessary. Steel shortage develops. Film industry expands rapidly.

LONDON (*Cable*)—The British do not expect now that the demand of the coal miners for wage increases will result in a strike. If employers and miners are unable to come to terms, it is likely that the government will intervene. London

Globe

LOWER THAN LOW—Britain's miners despair of "making a go of it" at present wages, but another class of diggers have not even jobs they can hope to improve. Unemployed, destitute, these Welshmen are allowed to scramble over the coal tip, after the trams are dumped, to pick out minute chunks of fuel.

is beginning to believe, however, that the determination of the miners to win wage increases will result in some scheme for export bounties which will apply to steel as well as coal. This will enable Britain to retain its export markets without having to attempt to keep miners on an impossibly low wage scale. The government is prepared to go so far as to nationalize the mines if necessary to prevent the rearmament program from being retarded or halted.

Broadcasting Under Control

The rumor a few weeks ago that Britain is likely to abandon government broadcasting is not confirmed on talks with authorities. There is some possibility that one broadcasting station outside the British Broadcasting Corp. will be allowed, but its programs will be strictly censored by officials.

Consuming and fabricating firms are having difficulty in obtaining immediate supplies of steel, particularly in structural forms. Some of the structural firms, finding their normal supply companies unable to give quick delivery, are combing the country for alternative small suppliers.

Plant developments are under way to relieve this situation, but will take time. South-Durham Iron & Steel Co. plans a new semi-continuous billet and sheet bar mill at their Cargo Fleet works. Guest Keens is pressing ahead with new production at Cardiff.

Present production rate, although inadequate, is now probably above the 1929 figure. Main cause, of course, is tariffs shutting out continental supplies. Only example where tariffs do not have this effect of delaying deliveries is in the wire rod section, where Canada is replacing Europe.

Buyers fear price rises and are keenly covering their forward commitments, which further loads the forward order books of the producers.

Movies Big Business Now

There are now 28 British films in course of production in the London area, comparing with 35 at Hollywood. It is twice as many as the number in production in any other country outside the United States. It will be increased by the year end when the two largest British companies — Gaumont-British and British International—have completed their schedules.

The total of 28 pictures represents a capital expenditure of about £915,000—over £30,000 per picture. Of that sum £150,000 will be spent on one picture alone.

London now has 56 sound film stages. This is only about Hollywood's total but is many more than the total of any other country, none of which has more than 30. Korda has new studios building at Denham, in Buckinghamshire, within a short motor run of London, and Gaumont-British have extensions under way.

The largest British individual studio is owned by British International at Elstree, with ten sound stages. Two other studios have self-contained six-stage plants, and the new Korda studios will have facilities for expanding to ten stages.

France

Political crisis overshadows business and all foreign problems. Franc is threatened by gold drain.

PARIS (*Wireless*)—France is face to face with an internal crisis which has, for the moment, pushed every external problem into the background.

It is political. The Laval government is supported mainly by the Radical Socialist party. There are three distinct elements in the opposition. Far to the Right is the powerful, though not numerically large, Croix de Feu. They are the Fascists of France. Far to the Left are the Communists and Socialists who have combined, for the moment, in the Common Front. They are far more numerous than the Fascist group and have demanded repeatedly that the government ban the "political leagues," which means principally the Croix de Feu. If the two elements of the Common Front could bury their differences and agree on a program, they could grab the government. For the moment, they are trying to push Laval as far as possible toward accepting their various demands without really unseating him.

Franc Weakness

With this critical political tension at the breaking point, the French franc is again weak. Gold has drained out of Paris for several weeks, in spite of the steady increase in the discount rate to, ultimately, 6%. If Laval weathers the storm, Paris authorities believe that France will be able to cling to gold at least until the end of the year and some new situation develops. If he is replaced by a government of the Left, it is quite possible that France will be forced to place an embargo on gold exports. Meanwhile, the Treasury is able to borrow only at the new high rates.

Soviet Union

Russians break old output records in new rationalization program. Second Five-Year Plan is likely to be completed in four years.

MOSCOW (*Cable*)—Russia is more excited over "Stakhanovism" than any other thing (*BW—Oct19'35*). It is a vogue for rationalization in industry which started only last September when a young mining engineer by the name of Stakhanov found that by proper distribution of his labor so that the available pneumatic drills could be in constant use he could increase the output of his unit 20-fold.

In the intervening $2\frac{1}{2}$ months it has developed from a sporadic effort to increase individual output in the Donbas mining region to the spearhead of a nationwide campaign to revitalize all Soviet industry. Technical norms in nearly every field of national economy have been smashed. It has gone so far now that a large number of industries have already pledged themselves to complete their second Five-Year Plan quotas in four years. Included in this group are the metallurgical industry, machine building, copper, electrical equipment, and synthetic rubber industries.

With their usual flair for propaganda, Soviet leaders are making the most of this popular movement to speed up industrial production. Three thousand backers, led by Stakhanov himself, assembled in Moscow last week for their first national congress. Stalin made one of his rare speeches, characterized the movement as "of historical significance, and opening a new era of development in which Russia will soon overtake and surpass the rest of the world in efficiency and production." (The Soviet Union has always held up the United States and its production norms as a model to Soviet industry, and nothing does more to spur Russians at their work than the thought that they may be able to surpass the United States in their output of any single product.)

Why Stakhanovism Succeeds

Stalin found four reasons for the success of the movement:

(1) Workers have been stimulated by this year's improvement in living conditions, by the increase in foodstuffs and the abolition of food cards;

(2) The public has honored the "Heroes of Labor," and this has helped to convince the workers that they are enriching society through their greater efforts and larger output;

(3) Workers are able to produce more because their industries are supplied with an increasing volume of modern machines;

(4) There is a growing body of trained personnel who have acquired a mastery of the machines they operate.

Declaring that the Stakhanovites have proved that the present production norms are antiquated and constitute a brake on industry, Stalin has demanded that they be revised upward "somewhere between" the Stakhanov records and the present norms.

Russia's constant dread of attack—heightened by recent threats from Germany and sinister moves by Japan—has caused the Kremlin to jump on this new fad as a means of rushing through the second Five-Year Plan so as to strengthen the national defences. It is the same argument used during the first Plan, but the threat may be more significant this time.

Canada

Oil companies protest farmers' demands for cheaper gasoline. Plans under way for all-British transatlantic air service. Ford benefits from New Zealand pact.

OTTAWA—Canadian oil companies are before the Tariff Board battling applications of prairie provincial governments for removal or reduction of the tariff duty on gasoline. The companies claim removal of the protection would bring to Canada the same chaos now prevailing in the industry in the United States. They argue it would eventually

Sovfoto

ALEXEI ANALYZED THE JOB—He increased his production 20-fold. Alexei Stakhanov tells his fellow miners, by organization of time and tools to avoid waste periods. His idea spread— today many another Russian industry, metallurgical plants in the van, are "Stakhanovizing" and surpassing all former production marks. The second Five-Year Plan may be done in four.

raise prices by increasing competition and thereby raising distribution costs.

Out of the hearing has come the forecast of possible big developments in Alberta's Turner Valley oil field. British American Oil Co. announced prospects of success for a low-cost method of producing grade-three gasoline from Turner Valley naphtha. If successful, the company would withdraw from the Montana field, from which it pipes oil to Alberta for refining.

In Canada, Imperial Oil Co., controlled by Standard, sets gasoline prices, these being followed by other companies.

Power Under Fire Again

Alarmed by the report that the Hepburn government of Ontario was only waiting till the Quebec provincial elections were over—so as not to embarrass Liberal Premier Taschereau of Quebec —before proclaiming the act repudiating the contracts for power from Quebec companies, representatives of Beauharnois, Maclaren, and Ottawa Valley companies are hurrying to Toronto this week in an effort to reopen negotiations for a settlement. Gatineau Power, subsidiary of International Paper, is playing a lone hand, President A. R. Graustein having been in Toronto a few days ago. Definite and final action by Ontario on Hepburn's policy of repudiation would seriously embarrass the Ottawa administration in connection with proposed new financing. Although Ontario is refusing power contracted from Quebec on the claim it isn't needed, Hydro Commission Chairman T. Stewart Lyon continues to push his proposal for a new Ontario power development from diversion of the Albany and Ogoki rivers from the Hudson's Bay watershed to the Great Lakes watershed. The proposal is under heavy attack.

Ontario's $100-million gold output of last year may be doubled this year, according to forecasts by the provincial mines minister.

While the *China Clipper* was getting away in inauguration of a transpacific air mail service, a conference of high officials from the United Kingdom, Northern Ireland, Newfoundland, and Canada was sitting here to work out plans for a transatlantic air mail and freight service between Great Britain and this country. Sir Donald Banks, director general of the British Postoffice, heads the visiting delegates. A principal question before the conference is the choice of routes. Three are under consideration: over the roof of the world—via Northern Ireland, Faroe Island, Iceland, Greenland to Canada; Ireland direct to Newfoundland to Canada; Ireland to Bermuda to Nova Scotia, not touching the United States.

Ford in New Zealand

The Canada-New Zealand trade agreement executed in 1932 (prior to the Ottawa imperial conference) was extended for six months last week, with modifications affecting Canadian automobile exports. New Zealand raises the duties on completed cars but lowers them on unassembled cars in the low-price class, stipulating at least 65% British content. Ford of Canada, which announced almost simultaneously the plan to build an assembly plant in New Zealand, should benefit owing to its high percentage of British content.

Latin America

Brazilian revolts are not expected to spread. Latin American bonds are under close scrutiny.

REVOLTS in northern Brazil are not expected to spread now to other parts of the country, and probably will be quelled by the end of the week. Business in Rio and in São Paulo has not been interrupted.

Neither Washington nor Rio had any explanation early in the week for the delay in the signing by the President of the Brazil-United States trade agreement, which otherwise has been completed. No new trouble has developed so far as is known and it is expected that the pact will be signed in time for the required 30 days to elapse and still make it effective by Jan. 1.

Bond Defaults Protested

Latin American bonds continue to be spotlighted in the investigation of various bondholders' protective groups by the SEC. Chilean bonds came under fire when J. Reuben Clark, Jr., representing the Foreign Bondholders' Protective Council, protested the foreign debt adjustment law of Chile which sets aside certain government revenues, one-half to be used for servicing foreign obligations, and one-half for amortization by purchases of these bonds in the open market at current depressed prices. Chilean 6s of 1961 are selling currently at nearly 25% above the low for the year, but they are lower now than they were at the end of 1934.

A similar situation exists in most other Latin American bonds except Peruvian and Argentine issues. One representative Brazilian issue is selling now about 30% below the levels of the beginning of the year, though the price is nearly 22% above the year's low quotation. Argentine 6s of 1959 are selling slightly above the figure for the end of 1934, and well above the year's low.

Colombian bonds have been particularly volatile. This is due to reports that the government at Bogota is able to resume service payments and to rumors that remittances will be made to New York. As each interest payment date has passed without any action, prices have slumped. Current quotations are, on the average, less than 10% above the year's low, and nearly 50% below the prices at the beginning of the year when the successful settlement of the controversy with Peru and improved foreign trade made it seem probable that Colombia would resume service payments.

Money and the Markets

Conservative analysts oppose Eccles' bullish statements, as encouraging speculation, with inflationary background. European uncertainty affects markets. Utilities and SEC go to law.

WALL STREET speculators this week thought the narrow canyon was again about to become the glory road of 1928-29, because Marriner S. Eccles, chairman of the Federal Reserve Governors, had started issuing bullish stock market statements, somewhat after the manner of government officials back in the Coolidge-Hoover era.

Conservative financial interests wondered if they were in for another experience of fiddling in high official circles while the financial situation brewed another 1929 explosion.

One authority as close to the stock market as Charles R. Gay, president of the New York Stock Exchange, has expressed the fear that another runaway speculative situation is impending.

Eccles Denies Inflation

Governor Eccles said such viewing with alarm did not distinguish between wholesome expansion and inflation, that there was no inflation when banks weren't lending. The stock market rise has been financed by cash, he said. Authorities critical of his analysis acknowledged that it is not bank credit that is boosting security values; it is government credit. Government borrowing and spending has piled up deposits until no further borrowing is necessary to support the higher values. More pointedly, they insist that it is the inflationary background in the banking situation, more than any other factor, that is encouraging the feverish market developments—the expectation that inflation will some day take.

However, the issue is going to be broken wide open. The Federal Advisory Council, non-voting representatives of the member banks, is on record as urging positive controls now, by starting to eliminate excess reserves, in which lies the slack in credit conditions. The council appears to have some support among the Board of Governors, but Chairman Eccles rejected its plan last week.

Bankers expect that the council will bring up the same recommendation before the open market committee meeting next month, but that the only result will be to attract public attention to the proposals. The present open market committee is expiring next spring, and could not set a policy without approval of the Board of Governors anyway. The present Board of Governors likewise expires Feb. 1, ahead of the open market committee.

So the problem will no doubt go over to a new Board of Governors, chosen by the President, and to a new open market committee, on which the banks will only have five representatives, as against the seven Governors that will be on it.

Treasury Has Top Hand

And whatever the Federal Reserve authorities decide to do, the Treasury Department will dictate the outcome. With its $2-billion stabilization fund, it can buy and sell government bonds and foreign exchange; it can issue currency; in fact, it can do practically everything that the Reserve Banks do. Its policy could easily counteract any restrictive program adopted by the banking system.

The stabilization fund would expire Jan. 31 if it were not for Presidential renewal, which seems assured. It is the trump the Administration has reserved for defence of the dollar should a currency war arise, and the French crisis suggests that it may be needed within the next year, if it ever is. If the fund were not continued, the Treasury would have $2 billions that would probably be added to the present $3 billion plus of excess bank reserves.

Hence the Treasury seems to be in the credit control saddle in either event, and if Mr. Eccles expressed the Administration policy, there will be inflation—at least enough to keep the security markets bubbling next year.

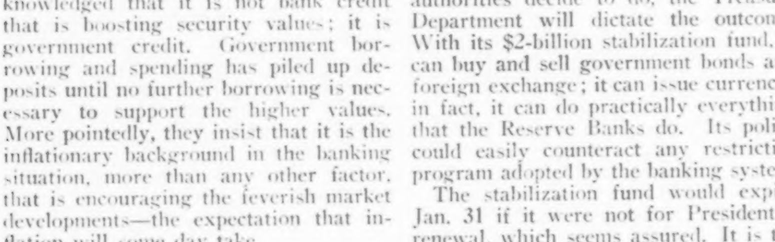
Clouds from Europe

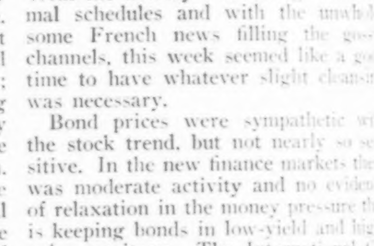
Stock and bond markets affected by uncertain French developments. New financing moderate. Money still plentiful.

DESPITE the kind words of Reserve Board Chairman Eccles and the boom talk of other officials and institutions, the security markets perversely looked elsewhere for their impulses, and found worrisome news abroad.

Consequently, in the face of profuse bullish news here, the stock market extended the easiness of late last week into this week and managed to produce a fairly vigorous sell-off. Traders in the share market professed complete satisfaction with the interruption of the long advance, on the theory that even if it were a cash market, and officially proclaimed as such, it nevertheless was entitled to setbacks from time to time. With the holiday interfering with normal schedules and with the unwholesome French news filling the gossip channels, this week seemed like a good time to have whatever slight cleansing was necessary.

Bond prices were sympathetic with the stock trend, but not nearly so sensitive. In the new finance markets there was moderate activity and no evidence of relaxation in the money pressure that is keeping bonds in low-yield and high-price territory. The International Cement 4% convertible bonds offered by underwriters this week leaped to a sharp premium as soon as offered.





Deadline

Utilities excited by approach of registration date. Electric Bond & Share sued in SEC test case; some companies register.

Utility men were excited this week because of the approach of the Dec. 1 deadline for registration with SEC under the public utility act.

Showered with refusals to register, and with injunction suits against enforcement of the act, SEC offered more olive branches. It proposed conditional registrations, by which holding companies could reserve the privilege of challenging the act as unconstitutional.

SEC and Attorney-General Cummings promised that no criminal proceedings would be instituted against companies failing to comply. They suggested that instead of "multitudinous suits" to harass both the industry and the government, the utility leaders and Administration officials should get together on mutually acceptable test cases.

SEC Meets Utilities

These proposals led to conferences between SEC and utility executives. There was one between Owen D. Young, a familiar figure in conciliatory conclaves; C. E. Groesbeck, chairman of Electric Bond & Share, and commission officials, and then the government launched its first action, a civil suit asking a court to direct Electric Bond & Share to register.

But this did not end the wave of injunction suits by individual companies. Following the lead of United Gas Improvement (*BW—Nov23'35*) and Consolidated Gas of New York, other big holding companies started suits this week, including North American Co. and Commonwealth & Southern.

On the other hand, a short queue lined up before the SEC window to sign on the dotted line. A small Northwestern company, Montana-Dakota Securities, led the way on Monday. New England Power Association and Utilities Power & Light Corp. were the first big companies to fall in line.

SEC enlisted Robert H. Jackson, lawyer for the Treasury Department, to help John J. Burns, the huge ex-judge who is the head of its law corps.

Who Lost Money?

That solemn season is at hand in which individuals and firms try to establish losses for income-tax purposes.

The annual game of establishing losses for income-tax purposes is about to begin, with rules and referee the same as last year. The scoring system for next year, however, has been revised, and in the light of future possibilities it is more than likely that there will be, at least among corporations, some anticipatory maneuvers before the year is out.

The security markets do not look upon tax-selling as a particularly cheery prospect, but since individuals are still taxable at the 1934 rates, it is doubtful whether the practice will amount to much as a market influence.

This year again the individual is allowed to take losses on capital assets fully to offset capital gains if he can find them, plus an additional limit of $2,000 in losses if he can find that. Also, if he has taken losses already in excess of his $2,000 deduction limit, he may now take some profits to balance off so that the opportunity won't be lost.

As far as the market goes, if he sells to take a loss, he may not repurchase for 30 days, but if he sells to take a profit, he may buy back immediately. Gain or loss on capital assets held for one year or less are computed at 100%, if held for 1 to 2 years 80%, 2 to 5 years 60%, 5 to 10 years 40%, and more than 10 years 30%.

Regular corporation and personal holding company taxes are hoisted for any tax year beginning after Dec. 31, 1935. The difference between the old rates and the 1935 revisions probably is sufficient to make some of these organizations take some existing profits and pay this year's rate, rather than hold them over and subject them to a higher rate next year. The net market influence, however, is not likely to be appreciably greater than it was last year, when the tax provided little more than a topic for discussion.

If AAA Loses—

What would adverse decision do to commodities? Sugar apt to drop; others might rise.

What will happen to commodity prices if AAA and processing taxes are invalidated? That is a question that has commodity brows mildly but not seriously furrowed. Probably the reaction in the commodities now under tax would be quite modest if the Supreme Court, sometime after the first of the year, should rule out the whole AAA procedure.

Sugar would be affected more severely than any other major substance. The sugar market is a boxed-in affair, with surpluses of insular and Cuban sugar just outside the quota fence. If the fence were suddenly torn down, sugar prices would undoubtedly suffer, even though one ingredient of the collapse were the reversion of the Cuban duty from 90¢ per 100 lb. to $1.50.

Most May Rise

But other commodities are not in the same position. Assuming sudden cessation of taxes, it is quite possible that the first reaction in most of the AAA commodities would be moderately upward. In cotton, for example, textile mills are doing a nice business on the basis of 12¢ cotton plus 4¢ tax. Eliminate the tax overnight and the chances are that mills would pay more for cotton next day, in addition to lowering the price level of processed goods. Both ends would work toward the middle to close the sudden gap between raw material costs and established selling levels of processed goods.

Wheat and hogs would not be materially affected. Probably hogs would move higher promptly. Corn would undoubtedly be wholly indifferent.

The bad spot would be the potentialities of a breakdown in crop control. With this in mind, it is conceivable that the long-term trends would get off on a downward slant within a reasonable time, since the various trades would be looking forward to ultimate expansion of production.

At the moment the general commodity level is high. Some of the indices are resting at the best point of the year, with others not far below the flush point. Foodstuffs and textiles are the main supports of the prevailing strength.

Variety Chains

Harvard study shows those with low price ranges met trouble best.

VARIETY chains, 30 of them, with 4,902 stores, showed a net gain of 7.86% on sales of over $722 millions and 15.19% on their net worth, according to a report on their 1934 operations, just issued by the Bureau of Business Research of Harvard University Graduate School of Business Administration.

While no previous figures on operations of the same group of chains are available, the report presents comparable figures for 16 identical chains whose performance is considered as typical of the industry.

The 1934 sales of $374 millions, reported by those 16 chains, topped their 1929 total by $20 millions, but as they had increased the number of stores operated from 1,595 in 1929 to 2,241 in 1934, this meant that average sales per store actually dropped from $221,000 in 1929 to $167,000 in 1934, or 19.56%.

Operating Results Shown

Averaging operating results per store for the two years 1929 and 1934:

		%
Average Sales	Declined	24.85
Gross Margin	Declined	19.56
Salaries and Wages	Declined	16.96
Tenancy Costs (rent, light, heat, etc.)	Declined	6.39
Total Expenses	Declined	14.65
Advertising Expenditures	Increased	2.93
Taxes (except on real estate and income)	Increased	124.79
New Profits	Decreased	38.20

Overall figures of another group of 16 chains show 1934 wage payments 16.5% higher than in 1929, tenancy costs up 32%, and taxes excluding those on real estate and income 216% larger.

It is considered highly significant that when these chains are segregated into groups according to the price limitations observed, the figures show the 5 which in 1934 confined sales in their 2,976 stores to 5¢ to 25¢ items earned the highest net profit, 9.04% on sales, while 10 chains with 1,427 stores having price ranges up to $1.00 (thus having a higher unit value of average sales) netted only 5.01% on sales.

This difference in net results is accepted as evidence that, in the price squeeze that occurred late in 1933, chains which observed the lower price limits were better able to adjust merchandise costs by various means (*BW—Dec9'33*) and to protect their margins so that their 1934 operations resulted in substantially higher profits. This is of particular interest in view of Woolworth's decision to boost its top price limit to 40¢ (*BW—Nov2'35*).

The Harvard bureau also points out that these studies have definitely established the importance of the size of city and average sales per store as factors affecting operating results. It reports that the sales per store of firms operating in small communities were only one-eighth as large as those in large cities while they had higher gross margins and higher expenses, but showed only a slight difference in profit.

Also important, in the light of recent grillings of chain store people by the Patman Committee and Federal Trade Commission, is the bureau's exploration into the subject of discounts and allowances, which for 21 chains averaged only 1.04% of sales.

Plan for Planners

Ideas for state-federal cooperation on resources indicate interest in strong federal influence.

Perpetuation of planning agencies under strong federal influence is the objective most conspicuously shown in the report which reviews activities and progress in state planning just released by the National Resources Board. Closer cooperation between state and federal agencies is sought. Not emphasized, but clearly evident, is the idea of escape in planning from the constitutional limits on federal activity.

There are four recommendations:

(1) Continued support by federal officials of state agencies, with advice that "states provide for permanent establishment and adequate financial support for state planning boards."

(2) Unremitting effort toward closer cooperation between state and federal governments, with loan of federal men to states.

(3) Closer coordination of state efforts with broad regional or federal plans in use of water, land, and mineral resource.

(4) Establishment of permanent Public Works Administration with legalized state agencies.

Population Basis

Population trends are the basis of land-planning and resource-utilization projects briefly outlined. No essentially new projects are set forth, nor is it clear just how this spare tire of the Planning Board proposes to coordinate the many contemporary, even conflicting, agencies actively engaged in federal administration — Reclamation vs. Resettlement Administration, for example.

National Resources Board is made up essentially of Cabinet members, with the bulk of the work done by the staff headed by Charles W. Eliot II, executive officer. Washington does not anticipate further academic postulates, except on spending of WPA type

Editorially Speaking—

LOUIS ECKSTEIN was in so many businesses at the same time, in addition to opera, that it was easy to get confused about him. Most people thought he was the Eckstein who manufactured crackerjack, and though we had known him many years, we shared that impression. A hard winter came along and the birds were starving. At the suggestion of one of our associates in the Izaak Walton League, we wrote Louis a letter, asking him to give us some popcorn that had failed to pop. He answered that we had got hold of the wrong Eckstein, and that the crackerjack Eckstein was undoubtedly a nice fellow who would be glad to oblige us, but meanwhile here was $50 for the birds.

Louis started out as a railroad messenger boy, became general passenger agent for the Wisconsin Central, and later went into millinery, and publishing, and real estate, and drug stores. He founded the *Green Book*, which was discontinued, and the *Blue Book* and the *Red Book*, which he sold a few years ago to McCall's. But Ravinia Park was nearest to his heart. He made it one of the great opera houses of the world, the glory of Chicago summers. He carried back-breaking deficits until at last, in 1931, he lost $178,000. Then he had to surrender to the depression and close down. But if he hadn't died he would have reopened Ravinia next summer.

FROM our Washington office: "While it cannot be put into a party platform and pushed directly, what the Administration would like to initiate would be the transfer of most local power from the states to municipalities and the vesting of matters which affect the general welfare in the federal government. There is no thought of doing away with the states. For sentimental reasons they must continue."

Just a rocking-chair and a pat on the back for poor old grandpa, while the big-muscled son at Washington and the swarms of local grandchildren do the work and run the show.

WILLIAM FRANKLIN KNOX is generally a conservative, but as a Presidential candidate he approves the soldiers' bonus. He says it should be paid out of relief funds already allocated but not yet spent. Relief funds, however, are for the needy, whether veterans or not, and surely money should not be diverted from the needy for the benefit of able-bodied veterans who are getting along all right. Besides, Mr. Knox is probably aware that the period of relief is not yet over; so if we spend a great part of the present relief appropriation for a soldiers' bonus, we shall simply have to appropriate more money for relief.

PEOPLE who have wondered, as some people have, what they would do in a hurricane, may find a provisional answer in the experience of G. C. Estill, president of the Florida Power & Light Co.

If, like Mr. Estill, they are utility managers, they will reach for the telephone (as Mr. Estill did before the wires were down between Miami and the North), and they will talk to the officials of their holding and service companies (as Mr. Estill talked to the American Power & Light Co. and to the Electric Bond & Share Co.), and they will state their estimated requirements in money, men, and equipment for repairing the damage done to their properties. And they will quickly get what help they need to restore their service.

But if they had no holding companies, as would be the case if the public utility act were held constitutional and put into effect, they would have to depend on their own resources. And their customers would go without service a considerable while longer.

BOOTH TARKINGTON does all his writing now in a room recently added to his home in Kennebunkport, Me. He found the room in Philadelphia and had it moved. This information is imparted to us by the Gentleman from Down the Hall, who says he likes the idea and is planning to bring together about a dozen rooms that he has noted with approval in various parts of the country. All he needs for accomplishing this plan is Booth Tarkington's bank balance.

"GEORGIA TROOPS BEAT BACK MOB TO SAVE NEGRO." Whenever a Southern state gets its name into such headlines in newspapers all over the country, it deserves high praise. Lynching is a disgrace, a mob crime that shames the United States in the eyes of the world. A state that helps to eradicate this stain is worthy of honor.

THE Roger Smith Hotels have sent a friendly little note to the people they buy things from. "Extending to you the season's kindest greetings," etc., but will you please refrain from offering Christmas gifts to any of our executives or department heads, as they are forbidden to accept them?

Happy the firm that can make such a rule—and make it stick!

IN the pending deal concerning Ethiopia, it appears that the aggressor will be signally chastised. He won't be allowed to keep all his victim's property. Not *all*.

BUSINESS WEEK

The Journal of Business News and Interpretation

NOVEMBER 30, 1935

Defeating Its Own Object

A month hence the first effective part of our new social security act begins its cumulative tax on the payrolls of the country. This act and its attendant tax are intended to relieve the unemployed. Whatever their ultimate effect on business and labor may be, the first result promises to be a curtailment in employment.

The act itself provides the strongest incentive business ever had to substitute machines for men.

When the act passed, a broker became alarmed at an estimate of what the payroll tax would cost him when and if the stock market resumed normal activity and the office became cluttered up once more with extra clerks and bookkeepers. In collaboration with a business machine company, he worked out a system for completely mechanizing his accounting and reporting departments. Since the installation, his office force has been materially curtailed but is handling a 300% increase in business and yet can accommodate double the present volume.

Multiply that case by tens of thousands and you will have what may happen to employment if too great a premium is put on mechanization in payroll reduction.

There are some business men who oppose not only the form but the principle of all social security legislation. The majority, however, are prepared for some form of old-age and unemployment insurance for two reasons: first, because they see the soundness of it as a social principle; and second, because they realize that this country has been going through a gradual process of socialization for 150 years and that some such protection for workers on a community and state, if not a national, basis, is inevitable.

The reality immediately confronting business is that a national unemployment insurance scheme which goes into effect next year will add $238 millions to payroll costs in 1936, and eventually $907 millions a year, while old-age insurance costs, to be paid by employers and employees, will consume $560 millions in 1937 and eventually $1,900,000,000 a year.

There are many reasons other than the dollars involved why business fears this prospect. The principal one is that the theory of the law itself is unsound. It goes further than previous legislation of the same philosophy in encouraging dependence rather than independence and competence on the part of the worker. This is particularly true of unemployment insurance, to which an employed beneficiary makes no contribution. There are no limits to which assessment for such insurance might eventually go under political pressure.

There is a direct obligation on industry and business to take extreme fluctuations out of the employment curve. Unemployment insurance is probably part of the solution. Mutual contribution of employer and employee to such insurance is logical. On that basis the scheme can be kept within reasonable bounds and freed of the worst political influence. Old-age protection is an obligation of the state in the first instance, but eventually should be supported wholly by the savings of the worker accumulated during his productive lifetime. The social motive behind this legislation is sound. The hasty enactment already on the statute books is unsound and probably unconstitutional.

The Way to Conserve Our Remaining Forests

We have a national Administration that wishes to conserve our natural resources. We are spending huge sums for that purpose. We are planting trees that will take 50 to 100 years to mature, and are reforesting large areas for the benefit of our grandchildren. We are buying millions of acres of denuded land that can be forests some day only at the expense of generations of spending and nurturing.

In the meantime lumbermen are permanently destroying the pitiful remnants of our forests, not because they are wanton, but largely because under economic pressure they can do nothing else. A small part of the money that is being spent with the desperate hope of recreating nature might well be used to finance the profitable and perpetual harvesting of lumber crops from the few remaining acres that are fit to produce wood products and at the same time give wholesome recreation to millions of people.

For Honest Neutrality, Not Favoritism

Are we neutral in the Italian-Ethiopian War, or are we cooperating with the League? We should make up our minds what we are doing and where we are heading for, because the consequences of muddled thinking may be disastrous. If we let the State Department apply a policy based on its own prejudices, we may be drawn into a reasonless and calamitous war, either soon or in a very few years.

One after another, the highest officials in Washington have issued statements and speeches and letters, all in the name of neutrality, but in no way based on the neutrality resolution adopted by Congress. The question came up in Congress whether the embargo should extend to all goods useful in waging war. Congress rejected the proposal. It authorized a limited embargo, applicable merely to "implements of war," the nature of which was clearly stated at the time. President Roosevelt has complied by declaring such an embargo. But he and Secretaries Hull and Ickes and Perkins and a director of the Shipping Bureau of the Department of Commerce, and a whole string of other officials, are now using their full power to stop oil, copper, trucks, scrap metals, and other materials from going to Italy.

Is this because we want to punish Italy? Then by taking sides we are running an unnecessary risk of being dragged into war. Or is it because we are neutral? Then bear in mind that we must with equal strictness prevent oil and copper and cotton from going to Britain if she gets into the war, and from going to Japan if China should resist the new Japanese aggression. Favoritism is dangerous. We must sell to all belligerents in all wars or sell to none.

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